2007 ANNUAL REPORT

SaskTel

>ahead by a century

1908 – 2008

LETTER OF TRANSMITTAL

Regina, Saskatchewan
March 31, 2008

To His Honour
The Honourable Dr. Gordon L. Barnhart
Lieutenant Governor of the Province of Saskatchewan

Dear Lieutenant Governor:

I have the honour to submit herewith the annual report of SaskTel for the year ending December 31, 2007, including the financial statements, duly certified by auditors for the Corporation, and in the form approved by the Treasury Board, all in accordance with *The Saskatchewan Telecommunications Holding Corporation Act*.

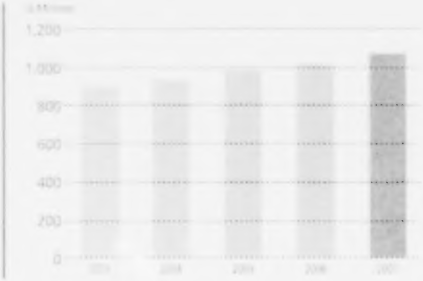
Respectfully submitted,

Ken Cheveldayoff

Honourable Ken Cheveldayoff
Minister of Crown Corporations

FINANCIAL HIGHLIGHTS

OPERATING REVENUES



OPERATING EXPENSES

NET INCOME

Operating Revenues for the year were $1,067.4 million, up $57.8 million from 2006. The increase was primarily due to strong customer growth in cellular, *Max*™ Entertainment and internet services. Increases in these services were partially offset by reductions in local access and long distance services.

Operating Expenses for the year were $961.4 million, up $44.0 million from 2006. The increase was driven primarily by increased expenses to support cellular and *Max* Entertainment Services revenue growth, increased depreciation and amortization expenses, and increased salaries and benefits. These increases were partially offset by reduced restructuring charges in 2007.

Net Income for the year was $84.1 million, up $11.6 million from 2006. Income from operations was $105.9 million and cash provided by operating activities was $224.9 million, which enabled SaskTel to once again self-finance all of its capital expenditures, acquisitions, debt obligations and dividend requirements.

Capital Expenditures for the year were $172.2 million, down $55.8 million from 2006. SaskTel completed the most aggressive capital program in the Corporation's history in 2006, when the Corporation focused significant resources on infrastructure enhancements to enable the delivery of new and improved Internet Protocol (IP) services to both urban and rural Saskatchewan. Capital spending returned to a more normal level in 2007, as SaskTel focused its capital expenditures primarily to growth initiatives, including *Max* Entertainment Services and cellular network expansion.

Dividends of $30 million were declared in 2007.

AHEAD BY A CENTURY

This annual report celebrates SaskTel's centennial by bringing to light our one hundredth year of delivering communication services to the people of Saskatchewan. That long-term commitment to our customers has been part of the competitive advantage that has put us *ahead by a century.*

Staying ahead has been a defining attitude in this industry from its very origins. Alexander Graham Bell is the name we associate with the invention of the telephone, but he was in a race with American inventor, Elisha Gray, to see who would get to the Washington patent office first. They filed on the same day—Valentine's day, 1876—and though Gray arrived and applied earlier in the morning, Bell's filing fee was entered on the cash blotter first and so the patent, and the fame, went to him.

From 1908, when the Saskatchewan Legislature passed the Rural Telephones Act, to today, SaskTel has worked hard to stay ahead of trends in the industry. Here are two recent examples from our one hundredth year. NGAI, our Next Generation Access Infrastructure program, moved into its second year in a five-year, $310 million project to increase the bandwidth of our access network, ensuring that SaskTel will be able to continue delivering to customers the latest information, communication and entertainment services.

As well, this year we were the first provider in Canada to offer SpinVox's Voice Mail to Text service, which converts voicemail messages to text and sends the text message to the recipient for viewing on a computer, a cellular phone or another wireless device.

Increased bandwidth and new wireless services are important and receive a lot of attention, but I'd like to focus for a moment on another way SaskTel has stayed in front of the industry in Canada. For one hundred years, this company has followed a policy that commits it to ensuring that Saskatchewan people are included in our communication networks, no matter where they live, work or play. This mandate and the list of technological accomplishments it unleashed—from our vast microwave network development to the pioneering work we undertook with fiber optics to our early transition to an all-digital network—has made SaskTel unique in Canada. No other communication provider has gone as far as we have in delivering world-class communications to communities, farms and outposts spread across the most thinly populated regions of the Canadian plains. Before the first decade of our history had passed, we were already

becoming aware of this commitment to remote and rural areas and proudly announcing our accomplishments unmatched in the industry. The 1917 annual report announced that 35,000 farms already had phone service, and described this as "an achievement not equaled . . . in the rural field in any Canadian province, and perhaps not elsewhere in any territory of like extent."

It was the rural telephone co-op system that made this rapid expansion possible, stringing party-line service along poles from farm to farm, but when the technology became available to convert party-line to individual line service in remote areas, SaskTel did it faster and better than anyone else. We shut down our last party lines in the early 1990s, while this outmoded service continued for many years in other rural areas of Canada, many of which were more densely populated than our remote areas.

This tradition of staying ahead of other jurisdictions in delivering the latest and best services even to remote and high-cost serving areas has continued into the competitive era of wireless technologies and the internet. We have led the way in bringing digital cellular service and high speed internet to sparsely populated communities in our north and across the plains where the number of customers per square mile is measured in fractions. Despite some challenging economics and demographics, as of the end of 2007, more than 95% of Saskatchewan's population had access to our digital cellular service and approximately 86% had access to our high speed internet.

This annual report shows in detail why SaskTel remains ahead by a century in many other ways as well—in our customer satisfaction ratings, and in our social commitment and environmental responsibility to the communities we serve. Inspired and guided by the hard work, creativity and intelligence of our staff, the SaskTel Pioneers, and our board members, may the SaskTel tradition of staying ahead last well beyond our centennial.

In closing, I would like to take this opportunity to recognize and thank our employees, management and Board of Directors for making 2007 another outstanding year at SaskTel.

Robert Watson
SaskTel President and CEO

AHEAD WITH INNOVATION

Our first century began with voice transmitted short distances over copper wire from one fixed point to another. Today, we are sending anything that can be digitized—voice, video, data—over wireless networks that connect people from one mobile point to another. SaskTel's entire digital wireless network has been enabled with 1xRTT functionality since 2003, but in 2006 we made the move to third generation wireless technology, EV-DO Rev A (Evolution Data Optimized), bringing wireless internet speeds up to par with landline high speed in Regina, Saskatoon, Martensville and White City.

In the coming year we are planning to take the next step by delivering EV-DO Rev A cellular service in 60 locations across the province. With this new expansion, 56 communities will receive EV-DO Rev A service for the first time, receiving data speeds up to 20 times faster than what is currently available in most areas.

Data speed, bandwidth and the quality of the infrastructure connecting to the internet are setting the terms for how well a person, a business, a community or an economy participates in the wider global interchange of ideas and commerce. In 2006, we launched our Next Generation Access Infrastructure (NGAI) project—the single largest project ever undertaken by SaskTel—to ensure that our customers have the bandwidth and infrastructure they will need to stay at the front of each new wave of opportunity brought by information, communications and entertainment technologies. With NGAI moving into its second year in 2007, we are well on our way to developing a complete IP core network capable of delivering next generation services. In April of this past year, we completed the "fiber to the node" phase of NGAI, extending our network to bring fiber optic cable and electronics closer to our customers' homes, and preparing for a future of enhanced high speed services.

We are confident that NGAI will make SaskTel's broadband network one of the best geographical networks in the world. Already, the people of North Battleford and nine other Saskatchewan centres can get a network connection as good as the connection people get in downtown New York.

Another new service that SaskTel was the first in Canada to offer this year was Voice Mail to Text service powered by SpinVox. This service automatically converts voicemail messages to text and sends the text message to the recipient for viewing on a computer, a cellular phone or another wireless device. You get the text of the voice mail as well as the number that called so you can return the call at your leisure. The service can be helpful in anyone's personal and business communications, but it may be particularly valuable to the hard of hearing. By converting voice to text, the new service gives people who are hard of hearing, or in noisy surroundings, easy and accurate access to their messages.

And lastly, 2007 was the year *Max*™ HD really took off. From January to December, new subscribers were signing up at an impressive rate, taking advantage of 28 High Definition channels with crystal clear picture and high quality sound.

AHEAD IN SERVICE

In the early days of SaskTel, monitoring customer satisfaction was something our operators did without having to think about it. Their daily contact with people placing calls in their local exchanges kept each operator in touch with customers. Today the complexity of our networks and services make evaluating customer satisfaction a little trickier, so we conduct quarterly customer satisfaction surveys to monitor our performance. In 2007, our survey results showed improved satisfaction levels and we plan to continue improving in the next year.

Three years ago, an independent survey of mobile phone customer satisfaction in Canada was launched by J.D. Power and Associates. For each of those three years, SaskTel's customer satisfaction levels have ranked us at number one or two nationally in the contract service segment of the Canadian industry. The 2007 report mentions that SaskTel performs especially well in call quality, billing and customer service.

A big part of staying ahead in customer service is simply listening to what our customers say. In addition to our customer satisfaction surveys, we have many ways of listening to customers, including technology road shows for our small business segment, and a customer feedback form to give customers a chance to tell us what they think of our service. Once we find out what our customers want, the next step is to take action.

For example, our *Max™* customers told us they wanted Digital Television Recorder (DTVR) service, so this past September we gave them what they asked for. Within a few weeks, over 2,000 subscribers were signed up for DTVR and using it to increase their enjoyment of *Max™*, including 28 HD channels.

Customers have told us that our web site, sasktel.com, needed to be easier to navigate, so we did some detailed customer research and re-designed it from top to bottom. Toward the end of the year, our revamped web site received third party recognition from the Telecommunication Industry Q4 2007 evaluation, conducted by the Customer Respect Group (CRG), in a study of Canadian, U.S. and U.K. communication providers' web sites. Measuring the online user experience, CRG ranked sasktel.com as the number one Canadian telco web site.

Of course, the most direct and immediate way we satisfy our customers happens every time a service representative, operator, technician or help desk assistant does a good job of meeting the needs of a customer. To help foster a culture of exceptional service, we have recognition programs to acknowledge employees who go the extra mile with customers.

The century that has taken us from operators on cord boards to customer representatives with personal computers has proven year by year that serving customers well is a priority that has shaped SaskTel right through its history.

AHEAD IN THE COMMUNITY

SaskTel's century-long legacy has been much more than reliable service and value. With tens of thousands of people having worked for SaskTel over the years, and decades of building social capital in Saskatchewan, our record is just as much about people and relationships as it is about getting affordable, world-class communication technologies into our customers' hands.

Anyone with Saskatchewan roots running back two generations will have a story about their uncle, grandma, cousin or neighbour who worked for the local telephone co-op, or about a first job in the city working as an operator or a lineman for Saskatchewan Government Telephones, as we were known back then. Even today, the lives of most Saskatchewan people are enriched by our corporate sponsorship programs, by the good work of the SaskTel Pioneers, or by the economic spin-offs stimulated by our partnerships with dealers and suppliers.

Our employees provide the heart and intelligence that makes all of this happen, so we take care to attract and retain skilled, motivated people that help us reflect the diversity of the public we serve. This year our diversity commitment was recognized by the Canadian Council for Aboriginal Business (CCAB). Under their Progressive Aboriginal Relations certification program, SaskTel was granted a Silver hallmark.

For the eighth year in a row, Mediacorp Canada Inc. ranked SaskTel as one of Canada's Top 100 Employers and one of Saskatchewan's top 10, based on opportunities for our employees to pursue a fulfilling career in an environment that respects a healthy balance between work and home life.

One of the elements that make SaskTel a place people want to work is our commitment to employee learning. In 2007, The American Society for Training and Development (ASTD) awarded SaskTel an ASTD Best Award for demonstrating enterprise-wide success or achievement as a result of employee learning.

Many of our employees, both retired and active, are involved with the SaskTel Pioneers, a volunteer organization that works all around the province on a broad range of youth, health, environmental and community-building projects. Celebrating their 60th anniversary of pioneering in Saskatchewan, the SaskTel Pioneers estimate that they have volunteered more than two million hours of

their time during those years. In 2007, the SaskTel Pioneers committed $50,000 to the St. Paul's Hospital Urology Centre of Health in Saskatoon, built green spaces in communities around the province, and helped with the Power Up To Read program. Around the province this year, they contributed over $364,000 in charitable donations and 67,111 hours of volunteer time.

This past year gave us many opportunities to advance the principles of our Eco(log)ical strategy we committed ourselves to in 2006. We brought all of our subsidiaries into the fold by having them adopt SaskTel's Environment Policy and join in the Environment Management System. We have completed our environmental review of all of our operations, subsidiaries included, and we have developed programs to manage any concerns we identified during the review. We also performed a waste audit in 2007 to analyze our waste management and recommend improvements. We approved a Greenhouse Gas Management Plan that aligns with the province's Energy and Climate Change Plan. Guided by the provincial targets, we will stabilize 2008 Greenhouse Gas emissions at 2007 levels. As well, this was the year that we launched a province-wide florescent light tube recycle program. Each of these measures and many more, including extensive recycling and electricity conservation programs, help to protect nature and leave a healthier world for the next generation.

SaskTel's involvement in Saskatchewan's economy is easy to see. At the end of 2007, our Saskatchewan dealer network included 96 SaskTel wireless dealer stores, 88 SaskTel High Speed Internet dealer stores and 51 SaskTel *Max*™ dealer stores. During the year, we paid over $28 million in commissions to our wireless, high speed internet, *Max*™ dealers in Saskatchewan. Also, SaskTel spent more than $369 million in 2007 on materials and services from over 4,600 Saskatchewan suppliers.

Each year, SaskTel donates hundreds of thousands of dollars to non-profit and charitable groups around the province, helping to sustain the latest generation of the community spirit that has been part of SaskTel and Saskatchewan from the very beginning. This past year we donated $2.2 million to over 1,300 organizations, enhancing the quality of life in the province's rural and urban communities. In addition to corporate sponsorship, SaskTel Telcare, our employee benevolent fund, donated $260,526, which is matched 50% by SaskTel for a total of $390,790 to assist 43 Saskatchewan charities.

AHEAD AND ABROAD

One hundred years ago, when the first phone lines were strung from homestead to homestead and town to town in the newly minted province of Saskatchewan, telephones were helping to bridge not only geographical distances but cultural ones as well. From the very beginning, technologies for communicating have crossed the boundaries that divide people by race, nation and religion. Today those divisions are fading in a global conversation that SaskTel is proud to help facilitate, allowing our customers to connect with the diversity of culture and tradition beyond our borders.

For more than twenty years now, SaskTel International (SI) has been reaching out to the world, sharing SaskTel's extensive technological expertise with customers in over 30 countries. During that period, SI has been active in Africa, particularly in Tanzania, where it has received several multi-million dollar contracts to bring communications services to cities, towns and rural areas of the country. Most recently, in 2007, SI was awarded a three-year management contract by the Government of Tanzania to manage all aspects of the operations, maintenance and expansion of Tanzania Telecommunications Company Limited (TTCL) in order to improve the company's financial, commercial and technical performance.

But our relationship with Africa is more than revenue for the corporate bottom line. In the past year, our employees helped to launch a project that delivered a 40-foot shipping container filled with medical equipment, school supplies, clothing and many other supplies to the people of Arusha, a city in northern Tanzania. The SaskTel YOUTHnetwork Community Corps, a group of volunteer teens from around Saskatchewan working to build stronger communities, has been providing much of the energy in the project, which they call the "We See You" mission. Other partners include the SaskTel Pioneers, the Regina Qu'Appelle Health Region, Professor Pammla Petrucka of the University of Saskatchewan's School of Nursing, and the Stephen Lewis Foundation's Grandmothers to Grandmothers Campaign.

While sharing its telecom management expertise with TTCL half way around the world, SI is busy on the east coast of Canada helping Bell Aliant to convert approximately 843,000 Nova Scotia and Prince Edward Island customer records to SI's MARTENS integrated suite of network management software. This deal is the largest MARTENS conversion in SI's history, and is part of an ongoing relationship SaskTel has established with Bell Aliant.

Our monitoring services subsidiary, SecurTek, has given us a way to use our call centre and network management capacities to pursue revenue opportunities across Canada. From our state-of-the-art monitoring centres in Yorkton and Winnipeg, SecurTek delivers security monitoring services to customers throughout Western Canada, and in select markets in Ontario and Nova Scotia. SecurTek partners with 96 independently owned firms including retail, wholesale and servicing dealers. SecurTek's services include not only intrusion detection, but also monitoring of environmental conditions, building systems and personal emergency response systems. This past year, SecurTek began to offer two new ways to connect an alarm system to the SecurTek Monitoring Station. SecurTek Internet Connect transmits alarm signals over a secure internet connection as a backup to, or instead of, the traditional telephone network. And if the internet connection fails, SecurTek Cellular Connect allows the alarm signal to travel over the digital cellular network.

Another SaskTel subsidiary, Hospitality Network, supplies pay-TV and telephone services to Canadian health-care facilities, serving more than 30,000 customers in over 200 healthcare locations nation wide. A portion of all rental revenues collected for patient rental services are returned to the client hospital to help fund various hospital initiatives. Over the past 40 years, Hospitality Network has returned over $100 million to the Canadian healthcare industry through the client hospitals that it serves. This is the kind of mutually beneficial relationship with customers that has come to characterize SaskTel and its subsidiaries in Saskatchewan, across Canada and around the world.

SASKTEL – AHEAD BY A CENTURY

1908: *SaskTel begins as the Department of Railways, Telegraphs and Telephones, established by the Telephone Acts, assented to on June 12, 1908.*

1909: *The first telephone exchanges are built at Hanley and Melville.*

1919: *The Qu'Appelle exchange is the first in North America to operate as a Community Dial Office (CDO).*

1923: *SaskTel provides lines for the first church service broadcast in Canada.*

1947: *On June 1, 1947, the telephone system, created by an Act of the Legislature in 1908, becomes a provincial Crown Corporation, known as Saskatchewan Government Telephones (S.G.T.).*

1957: *SaskTel completes its portion of the first-ever trans-Canada microwave radio relay system.*

1958: *The first automatic crossbar local switching system in Canada is installed in Saskatoon, allowing long distance operators to connect calls directly to the desired destination, without the assistance of operators at intermediate points along the way.*

1964: *Direct Distance Dialing (DDD) by the customer is first introduced to the province with the addition of the Regina and Saskatoon long distance centres to the continent-wide direct dialing network.*

1974: *SaskTel installs its first computer-controlled electronic switching equipment for local service in Saskatoon, increasing the speed and capacity of the telephone system.*

1977: *Saskatchewan is the first province in Canada to have all toll lines buried.*

1979: *The first digital switching system in Saskatchewan is installed in LaRonge.*

1982: *The first link of the fiber optic Broadband Network (BBN) is installed between Regina and Yorkton.*

1984: *SaskTel completes, what was then, the world's longest commercial fiber optic network: 3,268 kilometers, connecting 52 of Saskatchewan's largest communities.*

1990: *We are the first telecommunications company in Canada to complete its rural individual line service program, eliminating party lines throughout Saskatchewan.*

1991: *We are first in Canada to offer Custom Calling features—Call Display, Call Trace and Call Return.*

1994: *We are first in Canada to offer a long distance savings plan.*

1995: *We are one of the first in Canada to offer universal internet access to both urban and rural residents, and were the first in Canada to offer it with no long distance charges.*

1996: *We are first in North America to offer high speed internet service using Digital Subscriber Line (DSL) technology.*

1998: *We're first to offer wireless internet in Saskatchewan.*

2002: *We are first in Canada to offer IPTV—SaskTel Max™ Entertainment Services.*

2003: *We're the first telecommunications company in North America to offer video on demand—Max Front Row™ service.*

2004: *We are the first in Canada to offer a managed residential gateway service with WiFi capability and standard features such as parental controls, content filtering, remote access and firewall.*

2005: *We're one of the first in Canada to introduce the third generation of wireless technology, Evolution Data Optimized (EV-DO), bringing wireless internet speeds equal to landline high speed internet service.*

2006: *We are first in Canada to launch Say & Send messaging service, which enables SaskTel postpaid cellular customers to record voice messages and send them to other SaskTel cellular customers.*

2006: *We're first in North America to deliver HDTV over IP.*

2006: *SaskTel exceeds $1 billion in revenues.*

2007: *We're first in Canada to offer Voice Mail to Text service.*

2008: *June 12, 2008, SaskTel celebrates its 100th Anniversary.*

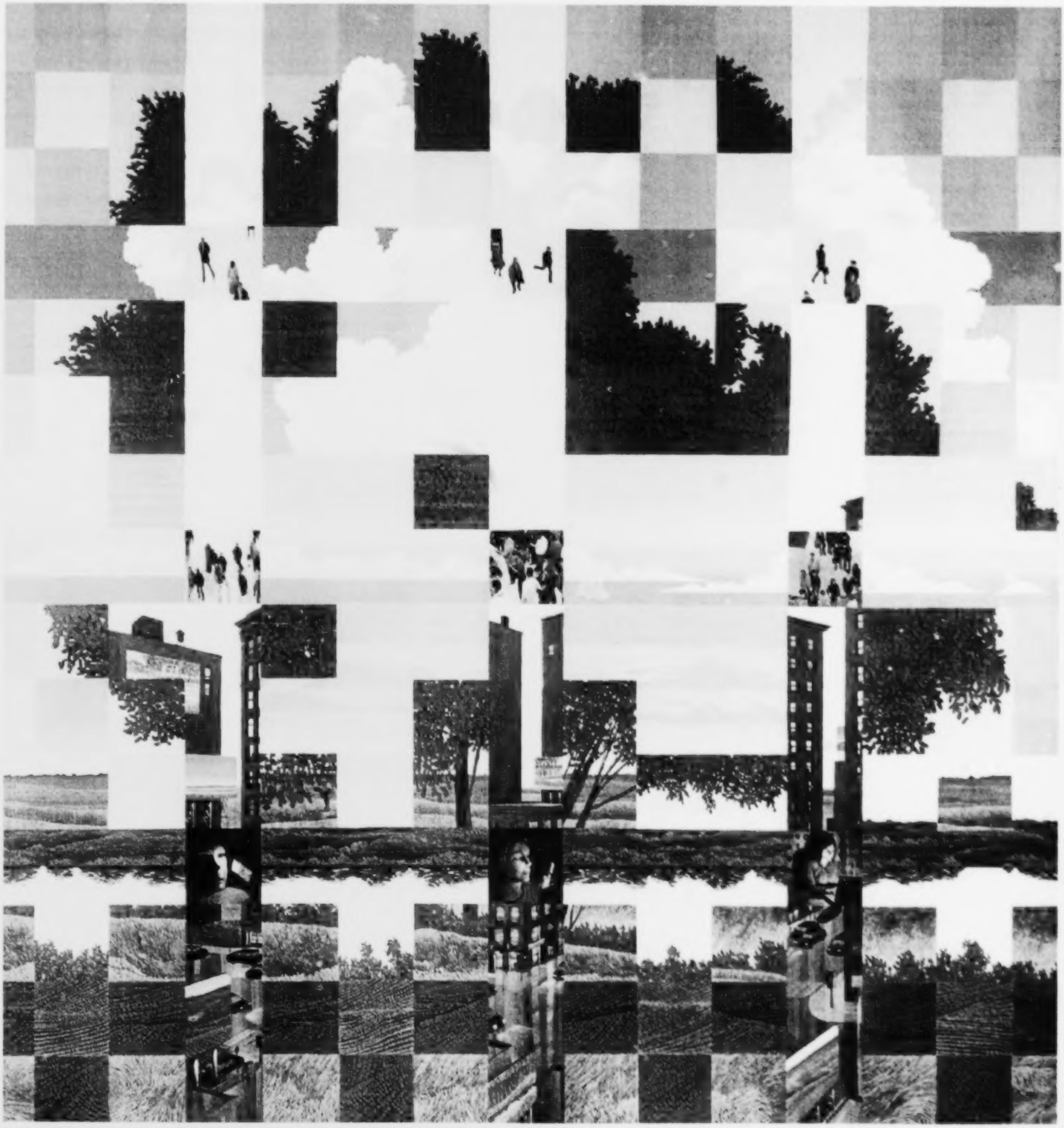
"Medians"
60" x 60"
Acrylic on Canvas
Sean William Randall

Commissioned by SaskTel to commemorate their 100th Anniversary.

"This painting is about the combining of different elements of Saskatchewan: the people, the city and the prairie landscape."

–Sean William Randall

MANAGEMENT'S DISCUSSION AND ANALYSIS



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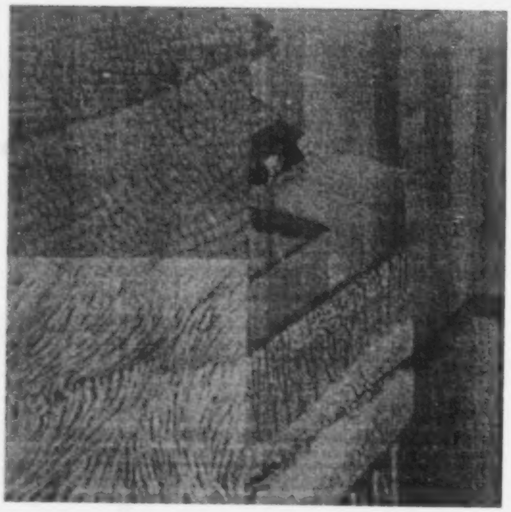


SASKTEL OVERVIEW

The Saskatchewan Telecommunications Holding Corporation (SaskTel) is a Saskatchewan Crown corporation.

We are the leading full service communications provider in Saskatchewan, offering competitive voice, data, dial-up and high speed internet, entertainment and multimedia services, security, web hosting, text and messaging services, and cellular and wireless data services over our digital networks directly from SaskTel and through our dealers. We also provide security monitoring services through SecurTek, directory services through DirectWest, in-room communications services to the healthcare sector through Hospitality Network, telecommunications consulting service and software solutions through SaskTel International, and deliver SaskTel products and services outside the province. Our subsidiaries have significant points of presence throughout Canada and internationally, returning profits and increased expertise to Saskatchewan.

SASKATCHEWAN TELECOMMUNICATIONS (TELCO)

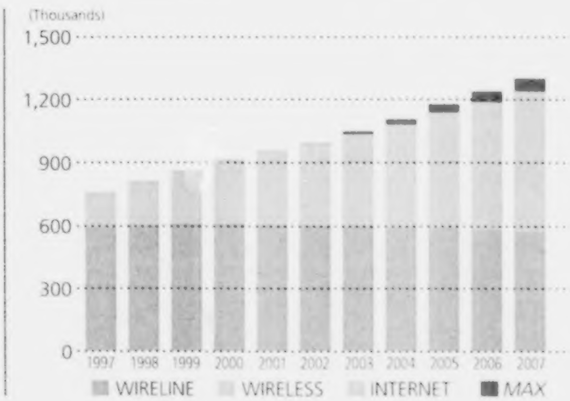
www.sasktel.com

Our key growth areas are within our largest subsidiary, Saskatchewan Telecommunications (Telco), a wholly-owned operating company. Providing traditional services such as local access and long distance, the Telco has evolved over time and currently offers services that have contributed significantly to our growth over the past several years including digital cellular voice and data, text messaging, *Max*™ Entertainment Services, data, high speed internet, data storage and enhanced voice services. The Telco is one of the largest employers in Saskatchewan, employing approximately 4,400 people in Saskatchewan, with the head office located in Regina. The Telco provides communication services to more than 425,000 Saskatchewan business and residential customers living in 13 cities and 535 smaller communities and their surrounding rural areas, including about 45,000 farms.

Beyond Saskatchewan's borders, the Telco also provides a full range of telecommunications products and services including local, long distance, internet, telephone cards (prepaid and postpaid), high speed data, hosting, web services and wholesale carrier services to customers across Canada and internationally through our Expansion Division. The Expansion Division serves as a sales and service channel for the Telco to market their services to markets outside of Saskatchewan.

The following graph illustrates the areas of growth by type of access since 1997.

ACCESS GROWTH BY TYPE



DIRECTWEST CORPORATION (DIRECTWEST)

www.directwest.com

DirectWest, a wholly-owned subsidiary of SaskTel, has been publishing telephone directories in Saskatchewan for over 50 years. DirectWest publishes and distributes 10 telephone directories across Saskatchewan, and provides these directories online at www.sasktelphonebook.com and www.mysask.com. In addition to consistently generating value through print and online directories, the company continues to add new services and solutions for their customers including web site development, online advertising, e-mail marketing, e-commerce and specialty publications.

In early 2007, DirectWest acquired the remaining interest of The Phone Book Company Partnership and now publishes and distributes six telephone directories in Alberta and Manitoba through its wholly-owned subsidiary DirectWest Canada, Inc. DirectWest's head office is in Regina, with a second office in Saskatoon. The company employs 162 people nationwide.

HOSPITALITY NETWORK CANADA INC. (HOSPITALITY NETWORK)

www.hospitalitynetwork.ca

Hospitality Network, a wholly-owned subsidiary of SaskTel, is the preferred provider of managed communication and entertainment solutions for the Canadian healthcare market. Hospitality Network provides service to more than 275 healthcare locations in over 225 locations nationwide, including Canada's largest hospitals and Seniors Care Homes. Originally founded with private Saskatchewan business interests in 1993 to provide entertainment services to the hospitality industry, Hospitality Network acquired a major Canadian player in 2000 (Telehealth) and became a wholly-owned subsidiary of SaskTel in 2005. Inclusive of the period of SaskTel ownership, Hospitality Network celebrated its 40th year of operations in 2007. Their head office is in Regina, with 425 employees nationwide including 33 in Saskatchewan.

SASKATCHEWAN TELECOMMUNICATIONS INTERNATIONAL, INC. (SASKTEL INTERNATIONAL)

www.sasktel-international.com

SaskTel International, a wholly-owned subsidiary of SaskTel, helps their clients in countries around the world to develop, improve and expand their telecommunications systems by providing a variety of consulting services. SaskTel International also offers innovative software solutions that provide a modular approach to managing every aspect of a telecommunications network. Throughout SaskTel International's history, they have worked in more than 30 countries on six continents.

With more than 20 years of experience, SaskTel International has generated total revenues of $527 million and total profits of $123 million for SaskTel, and has earned a profit every year since 1992. All of SaskTel International's revenues and profits are repatriated to SaskTel, where they are used to sustain and improve SaskTel's network and services in Saskatchewan and enhance returns to the Province in the form of dividends. SaskTel International employs 36 people.

In 2007, SaskTel International was awarded a three-year management contract by the Parastatal Sector Reform Commission (Government of Tanzania) to manage all aspects of the operations, maintenance and expansion of Tanzania Telecommunications Company Limited (TTCL) to improve the company's financial, commercial and technical performance.

SECURTEK MONITORING SOLUTIONS INC. (SECURTEK)

www.securtek.com

SecurTek, a wholly-owned subsidiary of SaskTel, provides commercial and residential security and monitoring services, exclusively through dealers, to customers in Saskatchewan, Alberta, Manitoba, British Columbia, and selectively in Ontario and Nova Scotia, from their monitoring centre in Yorkton, Saskatchewan and backup centre in Winnipeg, Manitoba. Operating a security monitoring centre leverages SaskTel's call centre, network management and process expertise to provide value-added services. Through their dealer program, SecurTek partners with 96 independently-owned firms including retail, wholesale, and servicing dealers who provide security sales and service expertise to their customers. Fifteen of SecurTek's dealers are Saskatchewan-based firms. SecurTek employs 108 people including 96 at their head office in Yorkton.

SASKATOON 2 PROPERTIES LIMITED PARTNERSHIP (SASKATOON SQUARE)

Saskatoon Square is one of Saskatoon's premier office towers. SaskTel has a 70% equity position in this property with three other partners each holding a 10% interest. This ownership secures long-term stability for SaskTel's office space requirements while reinforcing SaskTel's commitment to the City of Saskatoon. As well, SaskTel enjoys a reduced effective rental rate due to the earnings from our ownership interest in this property.

STREAMLOGICS INC. (STREAMLOGICS)

www.streamlogics.com

Streamlogics' webcasting solutions and services help corporations, government agencies and associations improve the effectiveness of their sales and marketing initiatives, corporate and internal communications activities, and training and continuing education efforts. Streamlogics' head office is located in Toronto, Ontario. In late 2007, SaskTel decided to divest its remaining 16% ownership stake in Streamlogics. The divestiture was completed in December 2007.

Investment Portfolio Summary

The following chart provides a summary of SaskTel's current investment portfolio.

Investments as of December 31, 2007

($ millions)	Book Value
DirectWest	$20.1
Hospitality Network	32.9
Saskatoon Square	0.5
SaskTel International	3.9
SecurTek	29.9
Total	$87.3

INDUSTRY OVERVIEW

The communications industry continues to face a number of issues. While these issues benefit customers and can spur significant innovations, incumbent service providers, with their legacy networks, systems and processes, are challenged to adapt and respond.

Collectively, the industry continues to move closer to realizing convergence. Customers will be able to access any content or service, using any device they choose from any location. Competitors' business models to support the investments required by convergence are not always clear or established. Recent market successes challenge conventional investment and strategic decision making, potentially influencing the way established providers might approach similar decisions in the future.

Convergence increases the number of competitors. Telecom companies now offer TV services and cable companies offer voice services. This development continues to present the biggest competitive threat to both sides, given that each is able to offer multiple services or bundles to customers. However, some customers' needs may not be served by traditional bundles and some customers may prefer to subscribe to separate services from multiple providers.

Previously, voice, video and data services were "access dependent" or the delivery mechanism and the application were bundled. For instance, a customer required local access service to make local or long distance calls. The advent of internet protocol (IP) has shifted many access dependent applications to access independent. In many cases, all that is necessary is an internet connection—either DSL, cable, wireless or satellite—to enable voice, video and data services from a provider selected by the customer.

The industry's profitability has been affected by these changing business models and disruptive technologies. Most disruptive technologies only require an internet connection. Consumers have multiple choices for service providers and can access many free services. Service providers are compelled to reduce prices and improve customer value by emphasizing quality and service—all of which leads to higher costs, particularly in light of the need to maintain traditional networks.

Incumbent service providers are also concerned about customers adopting and accessing new services and applications. Providers want to ensure that as many of their customers as possible can access the services. The need for accessibility must always be balanced with the investment required to offer the service, *i.e.* network upgrades or, given sufficient demand, new product or service offerings.

Despite these issues, overall industry revenue continues to grow. RBC Capital Markets anticipates the compounded annual growth rate (CAGR) for Canadian communication revenues between 2007 and 2010 to be 4.0%. This is a blended rate comprised of the continued decline in long distance, local access and some data products and the growth of wireless, internet and broadcast products.

STRATEGIC DIRECTION

SaskTel continued to face challenges in 2007. For this corporation and the communications industry in general, the market remained dynamic, competitive pressures continued, and new technologies and services were developed.

Facing these conditions and challenges, we have identified three key critical issues that must be addressed for SaskTel to be successful in 2008 and into our next century of operating:

- Industry Transformation
- Strategies for Growth
- Productivity

INDUSTRY TRANSFORMATION

The industry overview on page 18 highlights many of the issues that we are facing and why this is a critical issue. Going forward we will need to assess the impact of these industry changes and how we plan to address them.

STRATEGIES FOR GROWTH

Competition will increase and traditional revenues will decline further, as we continue to see lower margin, IP-based products introduced. Therefore, we will need to develop strategies to both capture new growth revenues and retain our existing revenue base.

PRODUCTIVITY

Implementing productivity initiatives to sustain profitability is just as important as increasing the revenue base. With the onset of aggressive competition and declining margins, we will need to improve our overall productivity to ensure our future viability.

CORE STRATEGIES AND PERFORMANCE MANAGEMENT

In 1999, CIC and their subsidiaries developed a Crown Sector Strategic Plan to provide long-term direction to the Crown sector and facilitate long-term planning. The plan includes a consistent vision statement for the Crown sector, their primary business purposes, common business values and strategic business objectives. We have developed our corporate strategic plan to support CIC's strategic objectives and priorities.

2007 STRATEGIES AND PERFORMANCE RESULTS

Financial

To continue to create value for SaskTel's shareholders through revenue growth and operational efficiencies across all subsidiaries.

Objective	Measure	2007 Target	2007 Actual	Results
Revenue growth	Gross Revenue	$1,054.4M	$1,067.4M	✓
Provide a positive return to shareholder	Net Income	$61.4M	$84.1M	✓
	Return on Equity *(before restructuring)*	14.5%	17.6%	✓

In 2007, SaskTel exceeded the targets for its financial measures. In terms of revenues, SaskTel achieved better results than the 2007 budget but also a 5.7% increase over 2006 results. Net income was also favourable ending 2007 at $84.1M, which represents a 37% increase over the 2007 budget and 16% increase over 2006 earnings, respectively. Please refer to the Operating Results section on page 34 for further information.

Customer

To ensure customer loyalty by delivering what customers value, while continuing to expand our customer base.

Objective	Measure	2007 Target	2007 Actual	Results
Sustain our Customer base in Saskatchewan while growing our customer base out of province	Customer Perception	70%	68%	–
	# of Customers In/Out of Province			
	In-Province *(thousands)*	894.9	912.7	✓
	Out-of-Province *(thousands)*	60.1	57.3	–
	Dealer Satisfaction	70%	76%	✓

In 2007, we continued our focus on providing outstanding customer service by being easy to do business with and offering best value to our customers. Customer feedback in 2007 indicates that we must continue to work to understand what customers need and value, because our Customer Perception indicator was slightly below target.

For the past couple of years, we have been tracking the number of customers, both in and out-of-province, instead of market share. With the convergence of IP communications products, defining markets has become challenging and we believe that measuring customer numbers is a more accurate indicator of consumers in the marketplace. Despite intense local access competition, we continue to hold steady on our in-province customers and in fact exceeded our target for this indicator with all operating units exceeding their respective customer count targets. We are proud to be a Saskatchewan company and thankful for the loyalty that our customers have shown. We fell short on achieving our target for out-of-province customers due to lower growth than anticipated from out-of-province customer channels.

Innovation and Growth

To grow the business by pursuing profitable investment opportunities that leverage our core business; to deploy leading-edge services and technologies.

Objective	Measure	2007 Target	2007 Actual	Results
Simplify and improve processes through IP transition	# of Customers Self-Serve Activities	5.1M	5.24M	✓
Increase revenues and decrease expenses to sustain net income	Revenue from Growth Initiatives	$374.0M	$355.3M	–
	Earnings from Existing Investments	$8.0M	$6.8M	–

SaskTel's management believes that a selective, disciplined focus on growth is important to maintain and enhance revenues and shareholder value. Without continued growth, our operating results, our value, our infrastructure and our products and services will diminish and erode. A key component of our growth strategy is risk mitigation and management. Not all new services and ventures can reasonably be expected to be successful; however, a number of key parameters and governance structures are in place to mitigate risk. For a more detailed discussion of how we manage our investment risk, see the Risk Assessment section of this report on page 27.

The results for both growth indicators were slightly below target. Although we experienced higher than budgeted growth within wireless, these revenues were offset by lower than anticipated revenues from the subsidiaries. Nonetheless, we continued to generate revenues and earnings from our growth portfolios in 2007 with most subsidiaries reporting positive net income. In addition, we continued to make capital investments to enhance our infrastructure to provide leading edge products and service to the people of Saskatchewan. Key initiatives include the Next Generation Access Infrastructure (NGAI) program, evolution of CommunityNet and the Telco wireless network, including EV-DO, to provide Saskatchewan residents with one of the most sophisticated networks in the world.

Enabled by these infrastructure investments, the following services were launched in 2007:

- Digital TV recorder for *Max*™ Entertainment Services;
- Voice Mail to Text and Online Voice Mail;
- Windows Live Messenger;
- Streaming Radio; and
- Media Locker.

As important as it is for us to increase our revenue base, we are also focused on reducing costs. As we simplify our processes, we are tracking our progress with the measure of customer self-serve activities. This measure, as a trend indicator measuring the number of self-serve transactions our customers undertake, was ahead of target for 2007.

People

To be a team of highly motivated individuals diverse in skills and backgrounds.

Objective	Measure	2007 Target	2007 Actual	Results
Representative Workforce Create an environment that values and more closely reflects the diversity of the community we serve	Female Representation in Management, Professional, or Technical Positions	26.5%	25.5%	–
	Aboriginal People *(Permanent Hires)*	30	34	✓
	People with Disabilities *(Permanent Hires)*	5	11	✓
	Visible Minorities *(Permanent Hires)*	3	13	✓
Employer of Choice Create and enhance employee engagement (satisfaction)	Employee Engagement *(% of factors above the Hay Norm)*	70% at or above the Hay norm	n/a	–
Investment in Employees Create a highly productive workforce with the skills and knowledge required to achieve current and future business plans	Training Investment *(% of employees receiving training)*	3% above the Wynford National Average	77.8%	–

We remain committed to our Representative Workforce Strategy to reflect the equity demographics of the Province. In 2007, we exceeded most of our Representative Workforce targets.

In 2007, we received a number of employer awards being recognized as: one of "Canada's Top 100 Employers" for the eighth consecutive year, one of Saskatchewan's Top 10 Employers, and one of the top 50 Saskatchewan companies. As well, SaskTel ranked ninth in the American Society for Training and Development (ASTD) Best award for demonstrating enterprise-wide achievement for employee learning. Internally, our commitment to our employees is measured through an annual employee survey and demonstrated in our annual training investment. Due to a provincial election call, the employee survey was not undertaken and training was limited which inhibited the training investment measure. For this indicator, we benchmark ourselves against the Wynford national average which is 77.3%. Although we met the national average, we did not exceed it by our 3% target.

Public Policy

To contribute to the economic and social well being of the people of Saskatchewan.

Objective	Measure	2007 Target	2007 Actual	Results
Be positioned as a Company committed to the Province of Saskatchewan	$ Spent Contributing to the Saskatchewan Economy	$597.7M	$641.9M	✓
	% of Population with Access to SaskTel High Speed Internet	84.6%	85.2%	✓
Be an environmentally sustainable organization	Develop and Implement an Environmental Sustainability Strategy	Energy Efficiency: Reduce total liters of fuel consumed per km by 1% compared to the previous year	4.2%	✓

In 2007, we continued to fulfill our public policy statement by:

- Providing affordable, accessible basic telephone service at competitive rates. We offer and maintain some of the most innovative and best-valued communications services in Canada;
- Providing Saskatchewan people and businesses with some of the lowest rates in Canada, despite our having a high proportion of Canadian Radio-television and Telecommunications Commission (CRTC) defined high cost serving areas;
- Continuing our investment in the Saskatchewan network with an additional $118 million investment in 2007. Since 1987, we have invested approximately $2.9 billion in infrastructure in Saskatchewan;
- Expanding cellular and high speed Internet service. The additional revenue earned by SaskTel's growth strategy has helped SaskTel build one of the best wireline networks in the world and a cellular network that covers approximately 95% of the Saskatchewan population. High speed internet access is now available to 85% of the Saskatchewan population;
- Partnering with local businesses throughout Saskatchewan by establishing dealer networks to market products and services. At the end of 2007, our Saskatchewan dealer network included more than 130 dealer locations offering SaskTel services (wireless, high speed internet, *Max*™);
- Contributing to the Saskatchewan economy through donations to non-profit and charitable organizations and spending money with Saskatchewan-based vendors and suppliers around the province. In 2007, SaskTel paid over $28 million in commissions to our wireless, high speed internet, *Max* dealers in Saskatchewan;
- Remaining committed to our green agenda with the continued implementation of the SaskTel Eco(logical) Strategy in 2007.

LOOKING AHEAD TO 2008

The 2007 Strategic Planning Process sharpened SaskTel's focus and produced a simplified and concise strategic plan that builds upon our experience in the past 100 years, defines our priorities and sets the tone as we enter into our second century of operations.

During the process, SaskTel management outlined new Vision and Mission statements for the organization. Our vision is *"To improve the lives of everyone we serve each and every time"* and our new mission is *"We will go beyond in delivering innovative information, communication and entertainment solutions to our customers in Saskatchewan and other select markets. We will be a socially and environmentally responsible organization that delivers sound financial returns. Our focus is our Customer. Our strength is our People."*

As illustrated in the following graphic, our refined focus is based on the new Vision and Mission statements, our Values, along with our three core strategies (Financial, Innovation and People). The core strategies were devised giving consideration to our key critical issues mentioned above and are intended to focus us on the areas deemed critical to our long-term sustainability. Their successful execution should address the critical issues identified.

Each strategy is defined by a statement of direction from which SaskTel management sets objectives, measures and targets. We use a Balanced Scorecard to measure and report performance and results. Our scorecard is not static and may change year to year as our business changes.

The following provides an overview of the performance management targets for 2008.

Financial

SaskTel will create long-term value for its shareholders by achieving positive financial results and focusing on productivity gains.

Objective	Measure	2008 Target
Positive Results	Revenue Growth *(Gross Revenues)*	$1,088.8M
	Net Income	$75.8M
Productivity Gains	Cost Efficiency *(Productivity Indicator)*	$11.4M
	Process Improvement *(# of customers self-serve activities)*	5.4M

Relentless competition and the erosion of traditional revenues and margins will continue. The challenge for SaskTel will be to maintain our existing revenue base wherever possible and find new sources of revenue to fill any gaps. We will continue to maximize opportunities that arise from our core business in addition to focusing on other initiatives that achieve revenue sustainability and future growth.

Productivity improvements will be just as important as revenue growth. We will continue to improve our systems and processes, and undertake workforce management initiatives to improve overall productivity as we move into our next century.

Innovation

SaskTel will focus on innovation through our approach to people, services and technology, in conjunction with our economic, environmental and social responsibility.

Objective	Measure	2008 Target
Solutions	Technology *(Proportion of population with high speed 1.5Mbps)*	88%
	Services *(Revenue from growth initiatives)*	$679.3M
	Broadband Subscriber Growth	19,688
Social Responsibility	$ Spent in Saskatchewan Economy	$622.0M
	Environmental Stewardship *(Greenhouse gas emission reduction)*	Stabilize greenhouse gas emissions at 2007 levels

In a highly competitive industry, finding innovative approaches to conduct business is critical. To meet these competitive challenges, we will be innovative in our approach to all facets of our business by focusing on innovation in everything that we do—the technology we deploy, the products and services we offer our customers, our workforce team, and the environmental and public policy initiatives we undertake. Innovation, as one of our core strategies, will continue to be top of mind throughout all areas of our company. To sustain our focus on innovation we will also undertake a new initiative that will foster creativity without the pressures and complexities that face SaskTel.

People

SaskTel will differentiate on customer experience in order to sustain and expand its customer base.

SaskTel will attract and retain the best people by creating an engaged workforce which embraces diversity.

Objective	Measure	2008 Target
Differentiate on Customer Experience	Customer Perception	72%
	# of Customers In-Province *(thousands)*	910
	# of Customers Out-of-Province *(thousands)*	59
Engaged Workforce	Employee Engagement *(% of factors above the Hay Norm)*	65% of factors at or above the Hay Norm
	Representative Workforce	
	Women *(# of women hired or promoted into management positions as a % of all hiring into management positions)*	42%
	Aboriginal People *(Permanent Hires)*	35
	People with Disabilities *(Permanent Hires)*	5

Successful achievement of any of our strategies is not possible without "Our People," meaning our customers and employees.

By establishing and maintaining mutually beneficial relationships with the people we serve, we will continue our customer first focus to attract and retain customers both in and out-of-province while delivering customer experiences that exceed expectations.

Changing demographics, evolving skill sets and a shortage of labour will continue as workforce challenges. Although these challenges are not unique to SaskTel, ensuring our long-term sustainability will require a continued focus on maintaining an engaged workforce that reflects the diversity of the public we serve. Initiatives around workforce planning, organizational development and the Representative Workforce Strategy will continue into 2008.

RISK ASSESSMENT

SaskTel takes an enterprise-wide approach to risk management, reporting key risks into four quadrants: Market and Social, Financial, Legal Liability and Operational. As depicted in the diagram below, the model centres around the identification, mitigation, transfer, assumption and control of key risks.

An internal risk management team conducts quarterly risk reviews focusing on one of the key risk quadrants. This team is made up of a Corporate Risk Manager, Security Manager, Business Continuity Manager and a management prime for each of the four quadrants, each of which are subject matter experts in their respective areas. The team uses a variety of techniques to complete the reviews including interviewing key personnel throughout the organization, conducting site inspections of key facilities and reviewing audits completed by the Internal Audit department. A quarterly report highlighting the significant risks is completed and presented to the SaskTel Executive and the Audit Committee of the Board of Directors.

The quarterly risk reviews are an important component of risk management at SaskTel in that they allow management to identify key risks and assess their likelihood and impact. Complementing these reviews are the ongoing, purposeful activities undertaken to mitigate risk as well as the corporate insurance program and other methods to transfer risk where appropriate.

The following sections detail the significant risks encountered in our business environment and our plans and activities in the management of these risks.

MARKET AND SOCIAL RISKS

Competition

SaskTel is a full service provider and, as such, we face a myriad of competitors in every facet of our business. The cablecos are perceived to be SaskTel's most significant near-term threat and are well positioned competitors in our core markets because of their network facilities and established customer relationships. In 2007, we continued to face competition for local access in our Saskatchewan urban centres as well as within some of our rural regions. With local telephony added to their product suite, these competitors are now able to offer a triple-play that incorporates high-speed internet and broadcast services. SaskTel also faces competition from Incumbent Local Exchange Carriers/Telephone Companies (ILECs/Telcos). Today, the ILECs compete with us for a variety of services including long distance, data, internet and wireless. The level of competition is expected to increase as the ILECs, similar to SaskTel, continue to diversify their operations. Furthermore, with convergence and the evolution of new technologies, the barriers to competitive entry are being eroded, bringing a number of new non-traditional competitors into the market. These competitors do not carry capital intensive cost structures and have globally recognized brands that provide a significant competitive advantage. In addition, Industry Canada has announced a wireless spectrum auction for 2008. We anticipate that this auction will result in a fourth national wireless service provider, or at a minimum an increase in the number of regional competitors.

Given this increased competition, SaskTel could lose customers and revenues. We mitigate this risk in a number of ways: by re-pricing of services, offering a broad range of bundles and continually investing in our state-of-the-art network to provide leading-edge services to our customers.

Regulatory

The telecommunications and broadcast industries in which SaskTel operates are governed by the *Telecommunications Act* and the *Broadcasting Act*, both of which are administered by the CRTC. SaskTel also operates in the wireless industry, over which the CRTC exercises a much lighter form of regulation. The right to

use spectrum in the wireless industry is granted by Industry Canada, which imposes conditions of license upon this spectrum. As a result, SaskTel is affected by changes in policies and regulations coming from Government of Canada directives and CRTC decisions.

The Regulatory environment faced by SaskTel has become more favorable; however, risks remain which may impact profitability. SaskTel mitigates these risks through a proactive and multifaceted approach. This involves attempting to achieve favorable regulatory reform while participating in the current CRTC processes with a view to obtaining the best possible result for SaskTel and its customers.

1. Telecommunications

Price Cap Framework

In 2007, the CRTC established a new Price Cap regime for large ILECs (including SaskTel). In this decision, the CRTC moved significantly toward a greater reliance on market forces. The decision caps residential local exchange rates in Low Cost Serving Areas (LCSAs) where the CRTC has not forborne from rate regulation. However, it also allows the ILECs to rate de-average within a Rate Band—that is, to charge different rates to different customers within a Band, providing revenue does not exceed the cap and imputation test rules are not broken. Currently the CRTC is conducting a proceeding to determine if rate de-averaging should be extended to business local and payphone services.

The new Price Cap regime also allows rate increases on business services, provided total revenue for the basket of services does not rise by more than the annual rate of inflation and the rate for any element in the basket does not rise by more than 10%. The regime also permits the rate charged for a local coin-in-the-box payphone call to increase to as much as $0.50 and eliminates all caps on the rates for optional residential features.

However, the decision is not entirely positive. The decision mandates an annual reduction to the national subsidy used to support affordable local residential service in rural and remote areas. The negative impact to SaskTel caused by this portion of the decision is approximately $1 million annually, although SaskTel is allowed to recover this amount through a rate increase.

Quality of Service

The regulatory process requires an Incumbent Local Exchange Carrier (ILEC) to pay rate rebate penalties for failing to meet CRTC-mandated quality of service standards established for consumers and competitors. Failure to meet the service standards established for competitors will also make it impossible for SaskTel to obtain forbearance from economic regulation of local exchange services. SaskTel takes steps to manage the business risk associated with the retail and wholesale penalties and other consequences of not meeting these indicators.

Regulatory Reform

In December of 2006, the federal government passed an order issuing a Policy Direction to the CRTC. The Policy Direction ordered the Commission to rely on market forces to the maximum extent feasible and to regulate using measures that interfere with market forces to the minimum extent possible. The Commission has initiated a number of proceedings to review existing rules in light of the Policy Direction. Recent decisions indicate that the CRTC is applying the Policy Direction quite liberally.

In April, the government overturned the local forbearance framework, which the Commission had established in Decision 2006-15 and to which SaskTel strenuously objected. The new framework allows forbearance at a local exchange level based on the capabilities of competitors to offer service, rather than on market share loss. However, there is a holiday period allowed for competitors with a low number of voice subscribers nationally, currently defined as 20,000, meaning that competitors in these areas are granted an 18-month "head start." The government's decision also removed the win-back rules which had placed restrictions on direct contact with customers who leave SaskTel.

Based on the new framework, the CRTC granted forbearance of SaskTel's residential local exchange services in the Saskatoon exchange. This gives SaskTel the same flexibility to market residential local exchange services as is available to its competitors.

Wholesale Services

SaskTel is awaiting the CRTC's decision in a proceeding that is reviewing the regulatory regime for wholesale services that telecommunications services providers supply to each other. This is the first major proceeding to be conducted under the auspices of the newly released policy directive. SaskTel hopes that this decision will result in fewer mandated wholesale services and prices. A decision is expected in mid-2008.

Wireless Services

Although the CRTC has chosen not to exercise all of its powers to regulate the wireless industry, it does retain the ability to re-introduce these powers, should it feel this is necessary. In addition, wireless service providers obtain the right to use spectrum—the wireless frequency on which their signals travel—from Industry Canada. As noted earlier, Industry Canada attaches conditions of license to the spectrum it grants. SaskTel must comply with these rules in order to maintain its right to use the spectrum.

In 2007, Industry Canada introduced new conditions of license to the spectrum used by SaskTel. These conditions require SaskTel to allow competitors to roam on its network and to share space on its towers, where feasible, and at commercial rates. SaskTel was previously willing to do this on a voluntary basis; however, the new conditions introduce a more stringent process of responding to these requests.

2. Broadcasting

The CRTC does not exercise any control over the rates SaskTel charges for its broadcasting services. However, the CRTC continues to regulate many aspects of the manner in which the service is delivered. Regulatory delay caused by the lengthy and unpredictable nature of the CRTC's review and approval processes may affect SaskTel's ability to control the timing of service enhancements.

In the first quarter of 2008, the CRTC will complete its review of the regulations associated with licensed broadcast distribution undertakings (BDUs) as well as the licensing framework for pay, specialty and video on demand (VOD) services. Determinations on these regulatory proceedings are anticipated to be released in the latter part of 2008. The extent of any changes to the current rules and the associated impacts on service delivery are uncertain. In addition, the Commission has launched its New Media Project Initiative, which will look into the question of whether or how new media contributes to and affects the broadcasting system, and whether the regulator needs to play a role in its evolution. SaskTel is participating in these proceedings to reduce the risk that any future regulatory oversight will constrain our ability to meet our business objectives.

SaskTel filed its BDU licence renewal application in November 2007. This application will be made public by the CRTC early in the first quarter of 2008. SaskTel's current BDU license expires August 31, 2008, so a decision can be expected sometime prior to that date.

Human Resources

Collective Agreement

A significant portion of our employees are unionized and are represented by the Communications, Energy and Paperworkers Union of Canada (CEP). The collective agreement expired in March 2007. Negotiations to renew the SaskTel Collective Agreement were successfully concluded in 2007, with the Agreement renewed for a three-year term to expire March 2010. A first Collective Agreement was also negotiated in 2007 for SaskTel Expansion Division employees, for a three-year term to expire August 2010. Settlement of these agreements ensures there will be no work stoppages for the term of the agreement and enables the company to more accurately forecast monetary impacts for 2008 and 2009.

Human Resource Development

The changing workforce demographics, increased competition for skilled resources and workforce flexibility all pose human resource challenges for SaskTel and the industry as a whole. SaskTel faces unique challenges because Saskatchewan is expected to experience limited growth. The province's working age population is projected to decline and the competition for skilled resources

will remain strong. These factors may impair our ability to deliver products and services in a timely manner, increase operating costs and reduce employee morale and productivity. We mitigate this risk through our People Core Strategy which focuses on strategic workforce planning, employee retention and employee attraction.

In 2007, SaskTel implemented a systematic and comprehensive strategic workforce planning process. The primary objective of this process was to develop a plan that would outline how SaskTel will recruit, support, develop and retain the employees it needs for future success. To achieve this objective and clearly identify the workforce issues within our organization, the workforce planning team completed extensive research including best practice reviews, environmental scans and workforce profiles. A cross functional HR team was established to review all research information and to develop a five-year strategic workforce management plan for the corporation. The corporate action plan is now addressing five key areas of focus: Recruitment & Selection, Attraction & Retention, Staff Development, Knowledge Management and Productivity Improvement.

Economic Conditions

In 2007, Saskatchewan's economy grew. This economic growth is expected to continue based on the strength in the resource and construction sectors in addition to increased consumer spending, employment levels and an accelerating housing market. As such, the Saskatchewan economy is expected to experience relatively stable growth over the five-year planning horizon.

The Canadian economy is forecasted to experience moderate growth led by low interest rates, steady inflation and the Canadian dollar trading near par. However, should the provincial and national economies experience a downturn, SaskTel would likely suffer financially.

Technology

The telecommunications industry continues to be characterized by constant technological change, evolving industry standards, changing customer needs, frequent new product and service introductions, and shorter product life cycles. These factors place the useful life of SaskTel's networks and assets at risk. In addition, as SaskTel updates its networks and introduces new products, services and technologies, it may incur increased technology risk. The following discussion identifies the key technology risks facing SaskTel over the five-year planning cycle.

Transition to Internet Protocol (IP) Networks

Today we are seeing IP revolutionize the communications industry and this continues to pose both an opportunity and threat for SaskTel. The delivery of services can be streamlined through convergence to a common IP-based environment, which will provide the opportunity for internal cost reductions, productivity improvements and increased flexibility for customers. However, the transition to IP networks and services is changing existing business models and bringing new non-traditional competitors into the market.

Given this reality, timing continues to be very important. If we enter the market too late, we could experience significant customer and revenue loss to competitors. Enter too soon and we cannibalize our own revenues or strand investment. To help mitigate this risk, we continually monitor industry trends and competitor activity, we invest in developing our own IP-based services and we focus on the long-term evolution of our network, information technology and processes.

Demand for Increased Bandwidth

Customers in today's converged market are demanding more and more from their communications provider: faster internet speeds, HDTV, video-on-demand, personal video recorders and much more. Because our competitors are well-positioned to meet these demands and often able to offer these services before us, we could lose customers and revenues. Therefore, in order to meet the current and future needs of our customers, and maintain our reputation as a leader in the telecommunications industry, we continue to make investments that will provide us with a state-of-the-art high bandwidth network for the future.

Wireless Products & Services

The wireless industry is highly competitive and increased competition is expected with next year's widely anticipated wireless spectrum auction, which could result in a fourth national

wireless service provider or new regional competitors. The reserved spectrum auction is intended to increase competition and innovation. In 2007, Industry Canada introduced new conditions of license to the spectrum used by SaskTel. These conditions require SaskTel to allow competitors to roam on its network and to share space on its towers, where feasible, at commercial rates.

Wireless technologies could have a material effect on SaskTel wireless products and services over the next few years. The Code Division Multiple Access System (CDMA) format is the dominant format used in North America, but is increasingly falling out of favour as the rest of the world moves towards Global System for Mobile Communications (GSM). Many of the latest devices in the wireless industry are being developed and provided for GSM formats prior to being available in the CDMA formats. Difficulty in obtaining and offering the latest devices to our customers could, in turn, result in market share losses.

These industry issues could have a material negative impact on our financial and growth prospects.

Growth

The communications industry is one of the fastest growing and most competitive sectors in the marketplace. Convergence is underway, new technologies and competitors are evolving, customer demands are increasing, and regulatory implications are creating significant challenges for SaskTel and the industry as a whole. Revenues from legacy services continue to be eroded with lower-margin, IP-based services replacing them. Although we strive to maintain our existing revenue base wherever possible and look for new sources of revenue to fill the gap, not all new ventures will succeed and so overall revenues and net income may suffer.

A number of risk parameters and governance structures are in place to mitigate this risk, including parameters to reflect country risk, currency risk, investment size, investment focus, rate of return expectations and overall business risk. As well, our strategy is to use a portfolio approach to new initiatives with an overall caveat that a failure of the entire portfolio could not put the future of SaskTel at risk. If we subsequently discover that a particular venture within the portfolio is not generating the value originally anticipated and will not be profitable within three to five years from the beginning of operations, SaskTel will explore alternate strategies. We believe that SaskTel's growth strategy creates and increases value, and does not unduly increase our overall risk profile.

FINANCIAL RISKS

Cost Reduction

Since 2000, SaskTel has been focused on operational efficiency and removing operating costs from the business. These operational efficiency programs have removed approximately $135 million in annual operating costs from SaskTel. While this is a significant achievement, we cannot be complacent. The onset of local competition, the transition to lower margin IP-based services and the continued decline in legacy revenues reinforce the need to continually focus on initiatives that will improve efficiency and remove costs from the business.

As such, we will continue to improve internal systems and processes to increase overall productivity, and reach the targeted backfill rates associated with the Early Retirement Program (ERP). These programs are targeting to remove an additional $50 million in operating costs over the next five years.

Pension Plan

The combined effect of declining capital markets, historically low interest rates, and the ERP has increased SaskTel's pension liabilities and placed the SaskTel Pension Plan (defined benefit) in a solvency deficit position. If the capital markets do not generate sufficient growth within the plan, and if the discount rate used to value pension liabilities decreases, there is a risk that we will have to increase employer contributions.

To mitigate this risk, we have contributed to the plan as the existing legislation requires and we have managed the asset mix to the optimal proportion of equities to bonds. In addition, we completed an actuarial study in 2007 to re-evaluate the funding status of the plan. We also continually monitor market rates of

return, interest rates, and the increased funding to determine their effect on the deficit. We believe these actions will eliminate the plan deficit as required by existing legislation; however, any major adverse economic fluctuations could affect future funding requirements.

LEGAL LIABILITY RISKS

SaskTel, like all businesses, faces the risk of being sued. Our employees interact with thousands of people daily and our assets are numerous and visible. We are exposed to various aspects of legal risk, including contractual, professional, statutory and third party liability, which could negatively impact our results and reputation.

Although the legal risk environment that we operate in is reasonably stable, we dedicate significant effort to managing our legal exposures. Central to our legal risk mitigation is the expertise and active business involvement of our Corporate Counsel division, a corporate structure that uses separate legal entities (subsidiaries) to limit liability, a focus on contractual assignment of risk or limitation of liability, and sound operating procedures at the core of our business. Additionally, our corporate insurance program provides a degree of financial protection from specific third party legal liabilities.

Cellular Class Action Suit

In August 2004, the Merchant Law Group brought a class action lawsuit against SaskTel and other national service providers in Canada. The claim includes allegations by wireless customers for breach of contract, misrepresentation, negligence, collusion, unjust enrichment and breach of statutory obligations concerning system administration fees. On September 17th, 2007, the class action lawsuit was certified. The parties are involved in ongoing motions to clarify the Certification Order. In addition, the defendants have filed an application for leave to appeal. Preliminary issues are still being dealt with. We are confident that we have strong defenses to the allegations. However, if the ultimate outcome favors the plaintiffs, there could be a material negative impact to net earnings.

R.L.T.V. Investments Lawsuit

In March, 2007 R.L.T.V. Investments Inc., former shareholder of Image Wireless Communications Inc., filed a lawsuit claiming that SaskTel deliberately acted to harm the Image Wireless business in Saskatchewan and claimed damages of approximately $87 million. The action was dismissed after a court hearing in October, 2007. However, the Plaintiff has appealed that decision. SaskTel remains confident that the action has little merit. However, there could be a material negative impact on earnings.

OPERATIONAL RISKS

System Security

Systems security involves the protection of systems and networks and associated information. These systems and network assets are used to process, manage and store customer, employee, operational and competitive information. A significant investment in systems and networks is maintained to process, manage and store this information.

As the internet continues to expand and new technologies become available, opportunities for system security breaches grow. External and internal threats become more numerous and complex. These threats include hacker attacks, denial of service (DoS) attacks, malicious software and accidental compromise, access or release of information. Any of these threats could compromise the integrity, availability and confidentiality of information and related services, which, in turn, could interrupt customer service, impair employee productivity and damage our reputation.

To protect against these threats, we have a comprehensive security program in place. It identifies and classifies information according to its confidentiality, integrity and availability, identifies threats to assets, and identifies the vulnerabilities of infrastructure. Controls and risk management activities include data classification, vulnerability assessment, intrusion detection, patch management, defined information security architecture, corporate anti-virus system, training and awareness, policies, standards and procedures, appropriate physical controls, and defined roles and responsibilities.

Physical Damage

With more than 1,400 locations of SaskTel property, plant and equipment around the province, we have a substantial investment in physical property. All of it is exposed to damage from natural hazards, vandalism and other forms of accidental loss. Damage or destruction of our assets could reduce revenues, increase expenses and impair asset values.

To reduce and prevent such losses, we have taken several measures: a stringent preventative maintenance program, regular inspections by independent loss prevention engineers, strict procedures on housekeeping practices and appropriate physical security controls. We have hardened our major switching centres; we have installed automatic sprinklers and fire detection systems; and we have developed business continuity and disaster recovery plans. As well, our comprehensive insurance program is in place to transfer any physical loss and resultant business interruption experienced.

Hardware and Software Failures

SaskTel's extensive network has evolved over the years to provide a variety of services from traditional voice services to leading-edge internet, entertainment and data services. The confidence level in the networks is high. However, our network infrastructure is complex and the possibility of a hardware or software failure impairing our ability to provide service to customers cannot be ruled out.

In addition to building high levels of redundancy into our network infrastructure, we use a number of other mitigation strategies to mitigate these risks, including regular operational reviews, business continuity plans, pre-arranged disaster recovery support from vendors, stringent testing procedures for new software, preventative maintenance programs and site hardening of critical locations.

OPERATING RESULTS

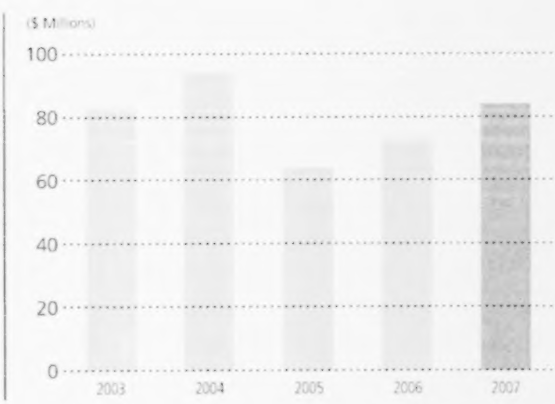
NET INCOME

CONSOLIDATED NET INCOME

($ millions)	2007	2006	Change	%
Operating revenues	$1,067.4	$1,009.6	$57.8	5.7
Operating expenses	961.4	917.4	44.0	4.8
Income from operations	106.0	92.2	13.8	15.0
Interest and related costs	(25.0)	(25.3)	0.3	1.2
Income before the following	83.1	72.4	10.7	14.8
Gain on sale of investments	1.0	0.1	0.9	*nmf*[1]
Net income	$84.1	$72.5	$11.6	16.0

Net income for the year was $84.1 million, up $11.6 million from 2006. Income from operations was $106.0 million, up $13.8 million from 2006.

NET INCOME



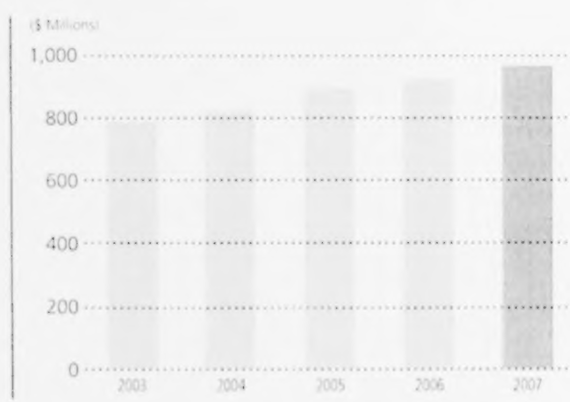
[1] No meaningful number (*nmf*)

Operating revenues for the year were $1,067.4 million, up $57.8 million from 2006. The increase was primarily driven by continued strong customer growth in cellular, *Max*™ Entertainment and internet services. Increases in these services were partially offset by reductions in local access and long distance services.

OPERATING REVENUES

Operating expenses for the year were $961.4 million, up $44.0 million from 2006. The increase was driven primarily by increased expenses to support cellular and *Max* Entertainment Services revenue growth, and increases to depreciation and amortization expenses. These increases were partially offset by reduced restructuring charges in 2007.

OPERATING EXPENSES



OPERATING REVENUES

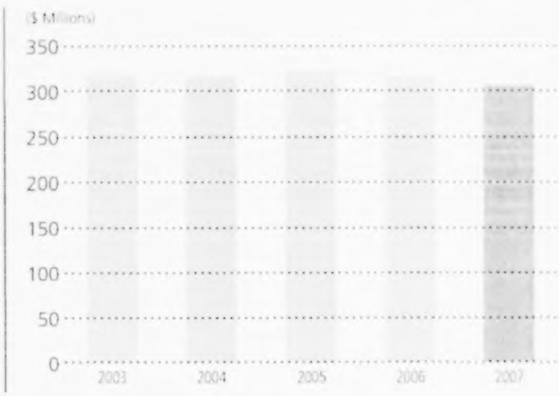
CONSOLIDATED OPERATING REVENUES

($ millions)	2007	2006	Change	%
Local services	$304.8	$314.5	$(9.7)	(3.1)
Wireless	301.3	260.2	41.1	15.8
Max, internet and data services	194.4	174.4	20.0	11.5
Long distance services	117.1	124.9	(7.8)	(6.2)
Other revenues	149.8	135.6	14.2	10.5
Total	$1,067.4	$1,009.6	$57.8	5.7

Total operating revenues increased to $1,067.4 million in 2007, up $57.8 million (5.7%) from 2006.

Local Service

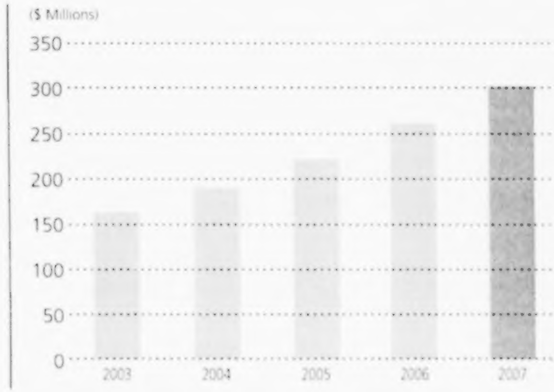
OPERATING REVENUES - LOCAL SERVICE



Local service revenues declined to $304.8 million in 2007, a reduction of $9.7 million (3.1%) from 2006. This decline reflects the reduction in network accesses that occurred during the year as local access competitors gained market share and as customers continued to migrate to wireless services.

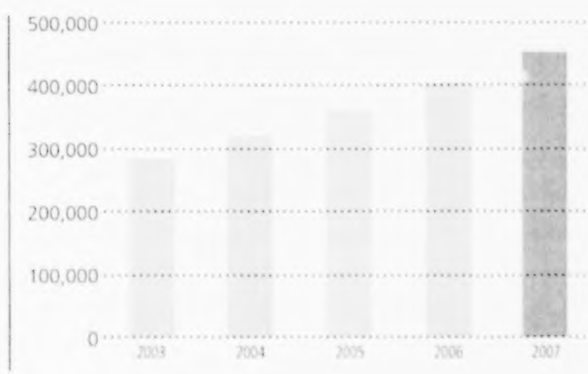
Wireless Services

OPERATING REVENUES - WIRELESS SERVICES



Wireless revenues increased significantly to $301.3 million in 2007, up $41.1 million (15.8%) from 2006. This was driven primarily by continued strong customer growth for cellular service, as total cellular accesses increased to 452,218 at year end, up 49,542 from 2006. The average revenue per cellular subscriber increased to $57.90, up $2.40 from 2006 as cellular customers continue to increase usage of services such as text messaging and downloadable ring tones.

CELLULAR ACCESSES



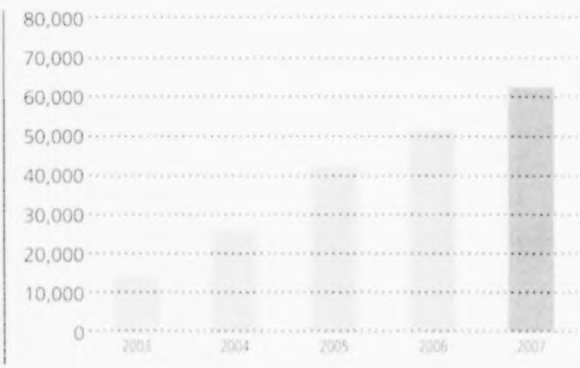
Max, Internet and Data Services

OPERATING REVENUES - *MAX*, INTERNET AND DATA SERVICES

Revenues from *Max*, internet and data services increased to $194.4 million in 2007, up $20.0 million (11.5%) from 2006.

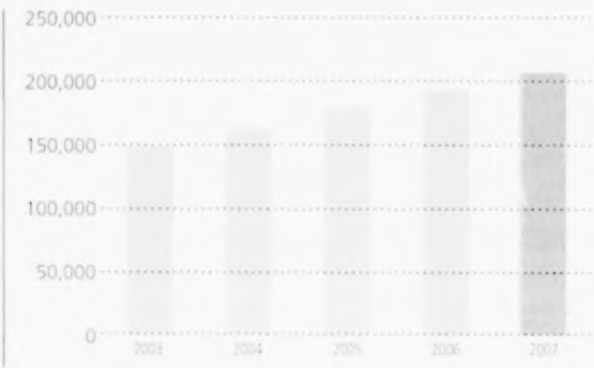
Max Entertainment Services revenues increased by $13.4 million from 2006, driven primarily by continued strong customer growth. At year end, there were 62,244 *Max* customers compared to 51,277 at the end of 2006, an increase of 10,967 (21.4%). *Max* services deliver digital video signals, including high definition network and specialty television channels, digital TV recorder, video on demand in partnership with Hollywood studios, local video on demand, live event pay-per-view and "always on" high speed internet.

***MAX* SUBSCRIBERS**



Internet revenues increased by $4.9 million in 2007, primarily due to an increase in high speed internet customers. At year end, there were 206,233 internet accesses, up from 192,734 in 2006, an increase of 13,499 (7.0%). This growth was driven, in part, by our continued expansion of service to more Saskatchewan communities. This increase was partially offset by revenue decline in dial up internet service as customers continue to migrate to *Max* Entertainment Services and high speed internet.

INTERNET ACCESSES



Long Distance

Long distance revenues declined to $117.1 million in 2007, a reduction of $7.8 million (6.2%) from 2006. Competitive pressures and continued growth in long distance bundles and unlimited calling plans continues to drive long distance revenues downward. These reductions were partially offset by an increase in wholesale long distance services by SaskTel's Expansion Division.

OPERATING REVENUES - LONG DISTANCE

Other Revenues

Other revenues increased to $149.8 million in 2007, up $14.2 million (10.5%) from 2006. This increase was due to increased sales of customer premise equipment, and to increased revenues from DirectWest Corporation, SecurTek Monitoring Solutions Inc. and Hospitality Network Canada Inc.

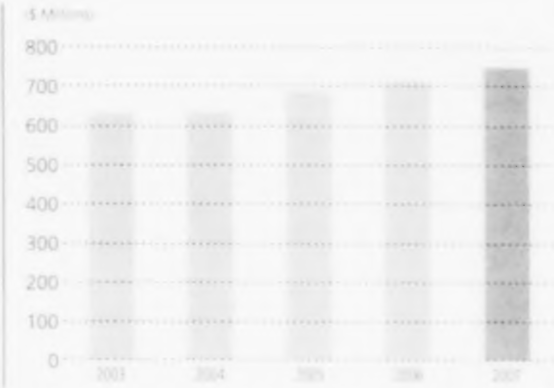
OPERATING EXPENSES

CONSOLIDATED OPERATING EXPENSES

($ millions)	2007	2006	Change	%
Operations	$746.4	$709.7	$36.7	5.2
Depreciation and amortization	169.4	152.6	16.8	11.0
Restructuring charges	45.6	55.1	(9.5)	(17.2)
Total	$961.4	$917.4	$44.0	4.8

Total operating expenses increased to $961.4 million in 2007, up $44.0 million (4.8%) from 2006.

Operations

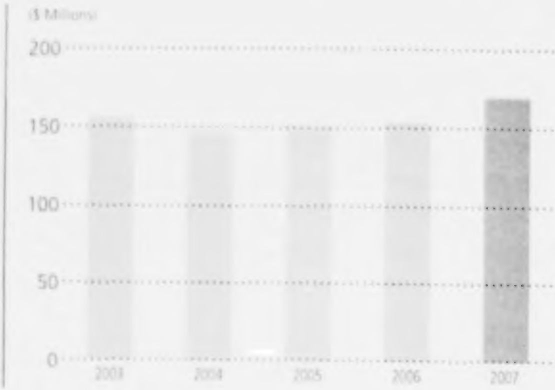


Operations expense increased to $746.4 million in 2007, up $36.7 million (5.2%) from 2006.

Direct costs, which include items such as *Max* content fees, cost of goods sold for customer premise equipment, cellular roaming expenses, commissions and license fees, increased by $23.4 million in 2007.

Salaries and benefits increased by $11.1 million in 2007. This increase was primarily due to the impact of the new collective bargaining agreement which was implemented during the year. Reduced staff levels and a reduction in pension expense staff partially offset this increase.

Depreciation and Amortization



Depreciation and amortization expense increased to $169.4 million in 2007, up $16.8 million (11.0%) from 2006. Increased levels of property, plant and equipment were primarily responsible for this increase, as the full year impact of the network infrastructure upgrade in 2006 was reflected in 2007.

Restructuring Charges

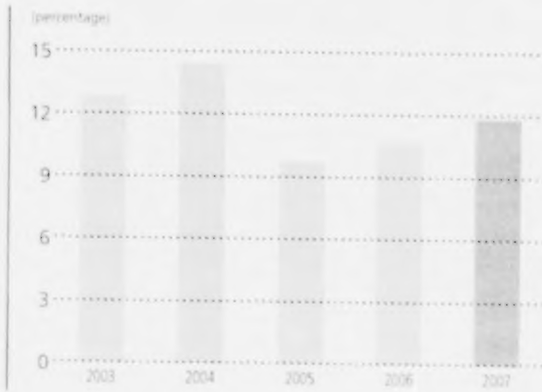
Restructuring charges decreased to $45.6 million in 2007, down $9.5 million (17.2%) from 2006.

Restructuring costs were driven by the ERP which was implemented in 2004 with the goal of reducing operating costs in traditional lines of business, while at the same time creating opportunities for growth in non-traditional areas. The number of employees electing to retire decreased to 163 in 2007 as compared to 187 in 2006.

RETURN ON EQUITY

	2007	2006	Change	%
Return on equity	11.8	10.7	1.1	10.3

RETURN ON EQUITY



LIQUIDITY AND CAPITAL RESOURCES

SaskTel was able to fund all its capital expenditures, acquisitions, debt obligations and dividend requirements with cash generated from operations and short-term investments on hand at the start of the year.

CASH PROVIDED BY OPERATING ACTIVITIES

($ millions)	2007	2006	Change	%
Years ended December 31	$224.9	$228.1	$(3.2)	(1.4)

Cash provided by operations was $224.9 million, down $3.2 million from 2006. Cash provided by operations, after adjusting for non-cash items, including depreciation and amortization, and pension and termination benefits, increased $6.6 million compared to 2006 primarily due to increased earnings. Working capital changes, however, resulted in a decrease in cash of $9.8 million compared to 2006. This decrease was primarily related to increased accounts receivable due to increased operating revenues in most of the operating units.

OPERATING ACTIVITIES

CASH USED BY INVESTING ACTIVITIES

($ millions)	2007	2006	Change	%
Years ended December 31	$175.9	$231.1	($55.2)	(23.9)

In 2007, cash used in investing activities was $175.9 million, down $55.2 million from 2006, primarily due to property, plant and equipment expenditures which decreased $55.8 million from 2006 expenditures.

INVESTING ACTIVITIES

Capital Spending

SaskTel's property, plant and equipment spending in 2007 was $172.2 million, down $55.8 million from 2006. This decrease was primarily driven by completion of the NGAI Program Phase 1. However, investment continued to support SaskTel's bandwidth infrastructure, which was designed to support customer requirements in established services such as *Max*™ Entertainment Services, high speed internet as well as all future IP Service needs. Additionally, SaskTel continued to invest capital to focus on growth initiatives, including development of *Max* Entertainment Services including High Definition television (HD), and Digital Television Recorder (DTVR) and developing a web-based sales and activation tool to ensure accurate provisioning and billing of bundled services.

SaskTel invested approximately $129.3 million in growth initiatives in 2007 compared to $185.1 million in 2006. Expenditures to sustain capital assets increased to $39.7 million in 2007 from $38.4 million in 2006.

Growth and diversification initiatives in 2007 included:

- $32.7 million in additional investment into the network infrastructure ensuring the network is accommodating customer needs;
- $27.0 million to further enhance and expand the wireless network including the addition of 26 new cellular sites;
- $24.7 million to ensure infrastructure is in place to meet high speed, *Max* requirements, and future IP service needs;
- $18.9 million for the EASI (Efficient Activation and Sales Integration) program to create a user-friendly web-based front-line sales tool. This program will integrate back-end systems for more effective order management of the fulfillment and billing of customer requests;
- $14.6 million for ongoing enhancements to *Max* Entertainment Services. *Max* provides customers with a full line-up of digital and HD quality television channels and unlimited high speed internet on their TV and computer;
- $2.8 million on high speed internet growth based on Digital Subscriber Line (DSL) technology; and

- $1.1 million to deliver wireless broadband internet primarily to rural communities, farms and remote areas utilizing Multipoint Communications System (MCS) technology.

Significant investments to sustain capital assets in 2007 included:

- $16.4 million for systems infrastructure and desktop computer provisioning initiatives. These upgrades will replace and establish new data and communications infrastructure needed to sustain current technology and provide for future growth;
- $12.5 million for network infrastructure to ensure the Corporation continues to meet customer demand without compromising quality of service; and
- $4.7 million to sustain wireless network and services.

Targets for 2008

Capital expenditures in 2008 will focus on further investment in growth initiatives, while sustaining current capital assets. A large portion of the growth expenditures will see capital investment to increase bandwidth to our customers. Capital investments will include network growth and refurbishment, further investment in *Max* Entertainment Services, the EASI program, the billing system, improved high speed internet quality and digital cellular expansion.

CASH USED BY FINANCING ACTIVITIES

($ millions)	2007	2006	Change	%
Years ended December 31	$53.1	$78.0	($24.9)	(31.9)

Cash used in financing activities was $53.1 million, down $24.9 million from 2006, primarily due to decreased debt repayment of $19.0 million and lower dividend payments to Crown Investment Corporation of Saskatchewan of $3.3 million. During the last five years, the Corporation paid a total of $300.2 million in dividends while maintaining a debt ratio below 40%.

DEBT RATIO

($ millions)	2007	2006	Change	%
Long-term debt	$352.4	$366.2	$(13.8)	(3.8)
Less: Sinking funds	56.4	50.2	6.2	12.4
Cash and short-term investments	12.0	16.1	(4.1)	(25.5)
Net debt	284.0	299.9	(15.9)	(5.3)
Equity	742.7	687.6	55.1	8.0
Capitilization	$1,026.7	$987.5	39.2	4.0
Debt ratio	27.7%	30.4%	(2.7)	(8.9)

The debt ratio decreased in 2007 while SaskTel continued to self-finance its capital and dividend requirements. The overall level of debt decreased by $15.9 million because of the repayment of long–term debt and increased sinking funds, which were partially offset by reduced cash and short-term investments. Retained earnings increased $54.1 million after recording net income of $84.1 million and declaring dividends of $30.0 million.

Debt Instruments

SaskTel's debt portfolio consists of long-term debt. Long-term debt is issued through, and guaranteed by the Province of Saskatchewan. Long-term debt is at fixed interest rates.

The average interest rate on SaskTel's fixed rate debt was approximately 7.68% in 2007 and 7.77% in 2006.

The interest rate on SaskTel's debt depends on the credit rating of the Province of Saskatchewan which issues debt on the Corporation's behalf. The following table lists the credit ratings of the Province at December 31, 2007.

	S&P	DBRS	Moody's
Long-Term debt	AA Stable	AA low Stable	Aa1stable
Short-Term liabilities	A1 High	R-1 (mid)	Not Rated

Access to Capital

The primary uses of cash in 2008 will be property, plant and equipment expenditures, growth initiatives and dividend payments.

The 2008 plan assumes that funding of capital expenditures, diversification initiatives and dividend payments will be from operations and cash balances on hand at the end of 2007. Any additional funding required will be accessed through short-term notes and, potentially, long-term debt issued through the Province of Saskatchewan.

Credit facilities consist of up to $125 million in combined lines of credit with financial institutions and advances from the Province of Saskatchewan. These facilities are not currently being used except for normal operating overdrafts.

Besides this credit facility, the Corporation has authority to issue up to $1.3 billion in combined short-term and long-term debt. At December 31, 2007 total outstanding debt was $352.4 million, compared to $366.2 million in 2006.

Use of Financial Instruments

SaskTel uses derivative instruments to manage exposure to interest rate risk and foreign exchange risk. Derivative instruments are not used to speculate. Because derivative instruments are related to specific financial exposures, there is no significant liquidity risk. At December 31, 2007, there were no derivative financial instruments outstanding.

SIGNIFICANT ACCOUNTING POLICIES

SaskTel's consolidated financial statements are prepared according to Canadian Generally Accepted Accounting Principles (GAAP). Please refer to Notes 2 and 3 to the consolidated financial statements for information about the accounting principles the Corporation uses in preparing its financial statements.

KEY ACCOUNTING ESTIMATES AND ASSUMPTIONS

In preparing the consolidated financial statements, management is required to make estimates and assumptions in determining transaction amounts and financial statement balances and is required to constantly evaluate the estimates and assumptions used. Management bases these estimates and assumptions on past experience and other factors considered reasonable under the circumstances. Because of the judgment and uncertainty involved, the amounts currently reported in the financial statements could, in the future, prove to be inaccurate.

Employee Defined Benefit Plans

SaskTel maintains defined benefit plans that provide pension, other retirement and post-employment benefits for employees. The primary plan is the SaskTel Pension Plan which has been closed to membership since 1977. Reported financial statement amounts relating to these benefits are determined using actuarial calculations that are based on several assumptions.

The Corporation performs a valuation at least every three years to determine the actuarial present value of the accrued pension and other retirement benefits. The valuation uses management's assumptions for the discount rate, expected long-term rate of return on plan assets, rate of compensation increase and expected average remaining years of service of employees. Management believes these assumptions are appropriate; however, differences in actual results or changes in assumptions could affect employee benefit obligations and future income or expense. SaskTel accounts for differences between actual and assumed results by recognizing differences in benefit obligations and plan performance over the working lives of the employees who benefit from the plans.

The two most significant assumptions used to calculate the net employee benefit plan's obligation are the discount rate and the expected long-term rate of return on plan assets.

Discount Rate

The discount rate is the interest rate used to determine the present value of the future cash flows that the Corporation expects will be required to settle employee benefit obligations. It is usually based on the yield on long-term high-quality corporate fixed income investments with terms reflecting the profile of the plan members.

SaskTel determines the appropriate discount rate at the end of every year. SaskTel's discount rate was 5.50% at December 31, 2007, up 0.35% from 5.15% used in 2006. Changes in the discount rate could have an effect on SaskTel's earnings through an effect on the projected benefit obligation. A lower discount rate results in a higher obligation, which could at some point require additional contributions to the plan.

Expected Long-term Rate of Return

In 2007, SaskTel assumed an expected long-term rate of return on plan assets of 6.75% consistent with the rate used in 2006. This rate is not currently anticipated to change in 2008.

Allowances for Doubtful Accounts

The Corporation and its subsidiaries maintain allowances for losses expected to result from customers who do not make their required payments. Estimates of the allowances are based on the likelihood of collecting accounts receivable based on past experience, taking into account current and expected collection trends. If economic conditions or specific industry trends become worse than anticipated the allowances for doubtful accounts will be increased by recording an additional expense.

Depreciation and Amortization

Depreciation and amortization is an estimate to allocate the cost of an asset over its estimated useful life on a systematic and rational basis. Estimating the appropriate useful lives of assets requires significant judgment and is generally based on past experience with similar assets, taking into account expected technological or other changes. If technological changes happen more quickly or in a different way than anticipated, management may have to shorten an asset's estimated useful life. This could

result in a higher amortization expense in future periods or an impairment charge to reflect the write down in value of the asset.

Long-lived Assets

Long-lived assets, including property, plant and equipment, are amortized over their useful lives. The Corporation reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized on a long-lived asset, or group of assets, to be held and used when the carrying value exceeds the total undiscounted cash flows expected from use and eventual disposal. Estimating the cash flows from the use and eventual disposal of long-lived assets requires significant judgement and is generally based on current and anticipated asset potential, including future technological trends. Declines in future cash flow potential or significant unanticipated technology changes could impact the carrying value and potential impairment. In addition, the Corporation cannot predict whether an event that may trigger an impairment will occur, when it will occur or how it will affect the asset values reported.

Goodwill

SaskTel management does not amortize goodwill and tests it for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. Impairment testing is carried out in two steps. In the first step, the carrying amount of the reporting unit is compared with its fair value. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired and the second step of the impairment test is unnecessary. The second step is carried out when the carrying amount of a reporting unit exceeds its fair value, in which case the implied fair value of the reporting unit's goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any. The implied fair value of goodwill is determined in the same manner as the value of goodwill is determined in a business combination using the fair value of the reporting unit as if it was the purchase price. When the carrying amount of reporting unit goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess. The estimates of future cash flows and fair value reflect management's best estimates, but they include uncertainties that cannot be controlled. As a result, the amounts reported for these items could change if assumptions are different or if conditions vary in the future. The Corporation cannot predict whether an event that triggers impairment will occur, when it will occur or how it will affect the asset values reported.

Intangible Assets

The Corporation records intangible assets at the most appropriate value depending on the method of acquisition; cost for purchased and internally developed intangible assets, and fair value for intangible assets acquired in business combinations. Intangible assets are tested for impairment when events or changes in circumstances indicate that their carrying value may not be recoverable. They are written down to fair value when the related undiscounted cash flows are not expected to allow for recovery of the carrying value. Estimating the cash flows from the use and eventual disposal of intangible assets requires significant judgement and is generally based on current and anticipated asset potential, including future technological trends. Declines in future cash flow potential or significant unanticipated technology changes could impact the carrying value and potential impairment. In addition, the Corporation cannot predict whether an event that triggers an impairment will occur, when it will occur or how it will affect the asset values reported.

Contingencies

The Corporation becomes involved in various litigation and regulatory matters as a regular part of its business. Pending litigation, regulatory initiatives or regulatory proceedings represent potential financial loss to SaskTel. The Corporation will accrue a potential loss if it is probable and it can reasonably be estimated. This decision is based on information available at the time.

FIVE YEAR RECORD OF SERVICE

ANNUAL CONSOLIDATED FINANCIAL INFORMATION

CONSOLIDATED INCOME STATEMENT

($ millions)	2007	2006	2005	2004	2003
Operating revenues	$1,067.4	$1,009.6	$978.8	$930.6	$895.8
Operations expenses	746.4	709.7	684.4	631.2	628.0
Restructuring charges	45.6	55.1	41.0	40.5	–
EBITDA	275.4	244.8	253.4	258.9	267.8
Depreciation and amortization	169.4	152.6	149.7	145.5	154.5
Write-down of long-lived assets	–	–	15.3	–	–
Operating income	106.0	92.2	88.4	113.4	113.3
Other items	3.1	5.6	1.2	8.1	(21.0)
Interest & related costs	(25.0)	(25.3)	(25.2)	(27.0)	(9.3)
Net Income	$84.1	$72.5	$64.4	$94.5	$83.0

CONSOLIDATED BALANCE SHEET

($ millions)	2007	2006	2005	2004	2003
Current assets	$150.4	$138.6	$218.6	$216.1	$196.0
Property, plant and equipment, at cost	2,895.1	2,793.0	2,640.6	2,568.0	2,510.5
Accumulated depreciation and amortization	1,928.0	1,834.9	1,766.1	1,675.2	1,595.8
Total assets	1,296.5	1,254.9	1,213.6	1,230.7	1,231.8
Current liabilities	213.8	206.6	218.0	203.9	206.4
Long-term debt	327.8	348.9	320.7	362.3	372.5
Dividends declared	30.0	50.0	57.9	88.0	76.6
Total equity	742.7	687.6	665.1	658.6	656.1

CONSOLIDATED CASH FLOW STATEMENT

($ millions)	2007	2006	2005	2004	2003
Cash and cash equivalents, beginning of year	$16.1	$97.1	$141.5	$90.6	$34.4
Cash provided by operating activities	224.9	228.1	195.4	276.0	255.1
Cash used in investing activities	(175.9)	(231.1)	(144.7)	(110.2)	(134.4)
Cash used in financing activities	(53.1)	(78.0)	(95.1)	(114.9)	(64.5)
Cash and cash equivalents, end of year	$12.0	$16.1	$97.1	$141.5	$90.6

FINANCIAL RATIOS

	2007	2006	2005	2004	2003
Return on Equity	11.8%	10.7%	9.7%	14.4%	13.0%
Debt Ratio	27.7%	30.4%	28.3%	25.7%	32.7%

QUARTERLY CONSOLIDATED FINANCIAL INFORMATION

CONSOLIDATED INCOME STATEMENT

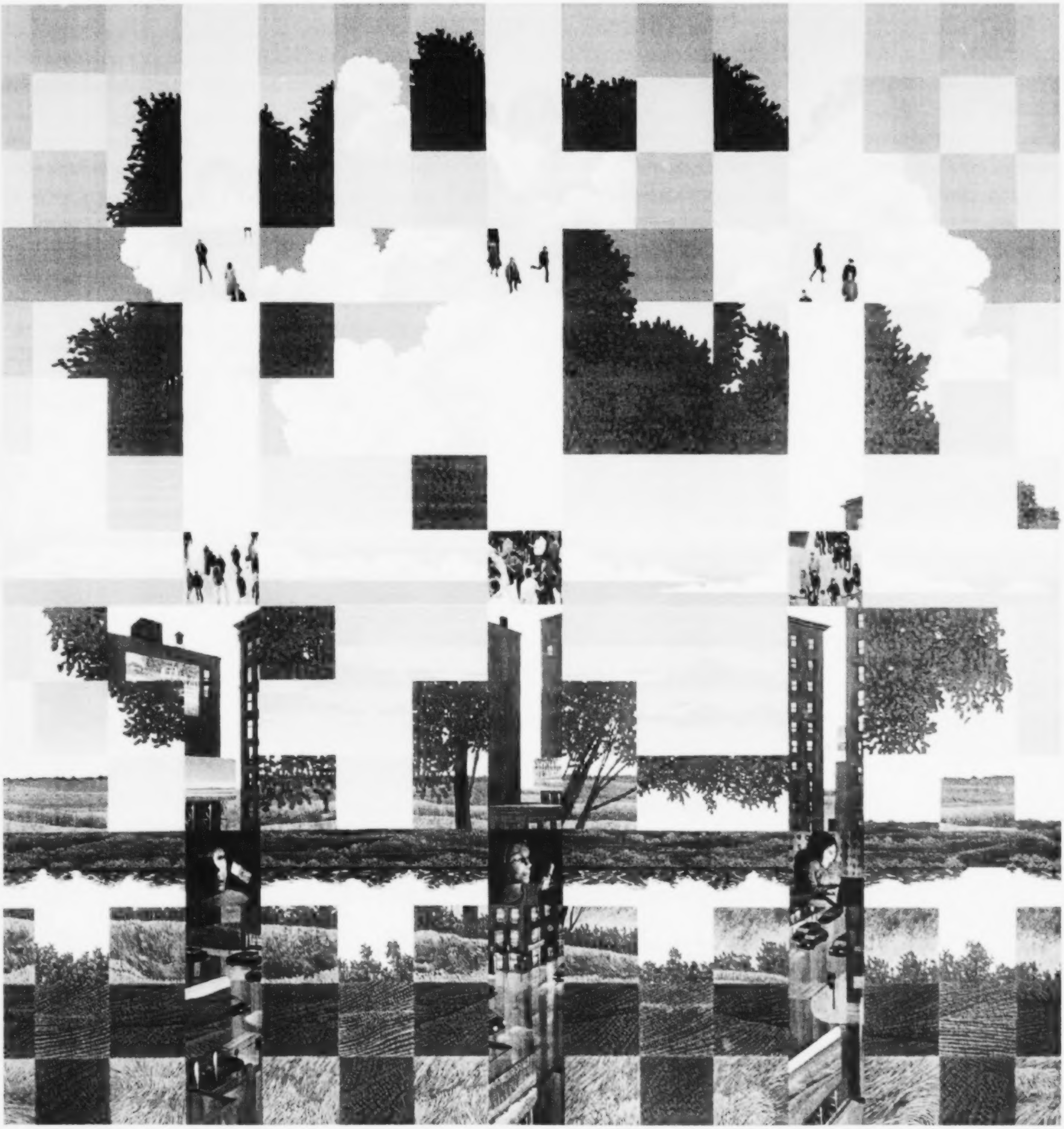
($ millions)	Q4 2007	Q3 2007	Q2 2007	Q1 2007	Q4 2006	Q3 2006	Q2 2006	Q1 2006
Operating revenues	$277.0	$272.4	$261.2	$256.8	$257.6	$254.4	$251.4	$246.2
Operations expenses	195.3	187.6	190.6	172.9	194.1	174.8	173.8	167.0
Restructuring charges	23.9	–	21.7	–	29.2	–	25.9	–
EBITDA	57.8	84.8	48.9	83.9	34.3	79.6	51.7	79.2
Depreciation and amortization	45.7	43.3	41.2	39.2	39.3	37.9	37.8	37.6
Operating Income	12.1	41.5	7.7	44.7	(5.0)	41.7	13.9	41.6
Other Items	0.7	0.4	0.5	1.5	1.2	1.1	2.4	0.9
Interest & related costs	(4.4)	(5.8)	(8.2)	(6.6)	(5.8)	(6.0)	(6.8)	(6.7)
Net income (loss)	$8.4	$36.1	–	$39.6	($9.6)	$36.8	$9.5	$35.8

ANNUAL OPERATING STATISTICS

	2007	2006	2005	2004	2003
Wireless*					
Total wireless access services	460,277	411,918	368,817	326,916	291,897
Cellular access services	452,218	402,676	360,137	318,102	282,679
Cellular average revenue per access ($)	57.9	55.5	53.6	50.9	48.7
Wireline*					
Network access services	568,181	578,979	584,149	587,185	590,961
Internet access services (includes *Max* accesses)	206,233	192,734	179,385	162,098	148,301
Max customers	62,244	51,277	42,089	25,800	14,022
Originated long distance minutes (000's)	1,388,800	1,393,824	1,390,614	1,426,493	1,433,936
Employees and payroll					
Total employees	5,209	5,152	5,134	4,852	4,926
Salaries earned (000's)	$295,962	$275,679	$272,032	$268,082	$270,332

** Does not include SaskTel internal use*

CONSOLIDATED FINANCIAL STATEMENTS



MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying consolidated financial statements, included in the annual report of Saskatchewan Telecommunications Holding Corporation for the year ended December 31, 2007, are the responsibility of management and have been approved by the Board of Directors. Management has prepared the consolidated financial statements in accordance with generally accepted accounting principles in Canada, consistently applied, using management's best estimates and judgements where appropriate. The financial information presented elsewhere in this annual report is consistent with that in the consolidated financial statements.

Management maintains a comprehensive system of internal controls to ensure the integrity and objectivity of financial information and provide reasonable assurance that assets are properly safeguarded, reliable financial records are maintained and transactions are recorded and executed in compliance with legislation and required authorization. This system includes written policies and procedures, an organizational structure that segregates responsibilities and an established code of business conduct. An internal audit function independently evaluates the effectiveness of these controls and reports its findings to management and the Audit Committee of the Board of Directors.

The Board of Directors is responsible for ensuring that management fulfills its responsibility for financial reporting and internal control. The Board of Directors fulfills this responsibility principally through its Audit Committee, consisting primarily of outside directors, which meets periodically with management as well as with the internal and external auditors. The Audit Committee is responsible for engaging or re-appointing the services of the external auditor. Both the internal and external auditors have free access to this committee to discuss their audit work, their opinion on the adequacy of internal controls and the quality of financial reporting. Typically the Audit Committee would meet with management and the external auditor to review the Corporation's annual consolidated financial statements prior to submission to the Board of Directors for final approval, however, the Board of Directors was released in December of 2007 and not reappointed until February of 2008, and as of the date of approval, a new Audit Committee had not been struck. In the absence of an Audit Committee, the Corporation's annual consolidated financial statements have been reviewed in detail with the entire Board of Directors prior to approval by the Board of Directors.

The consolidated financial statements have been audited by the independent firm of KPMG LLP Chartered Accountants, as appointed by the Lieutenant Governor in Council and approved by Crown Investments Corporation of Saskatchewan.

Robert Watson
President and
Chief Executive Officer
March 4, 2008

Mike Anderson
Chief Financial Officer

AUDITORS' REPORT

To the Members of the Legislative Assembly, Province of Saskatchewan.

We have audited the consolidated statement of financial position of Saskatchewan Telecommunications Holding Corporation as at December 31, 2007 and the consolidated statements of operations and comprehensive income, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Regina, Canada

March 4, 2008

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME

For the year ended December 31, *(Thousands of dollars)*	2007	2006
Operating revenues	$1,067,359	$1,009,586
Operating expenses		
Operations	746,418	709,698
Depreciation and amortization	169,370	152,626
Restructuring charges (Note 7)	45,630	55,082
	961,418	917,406
Income from operations	105,941	92,180
Other items	2,150	5,546
Interest and related items (Note 8)	(25,031)	(25,337)
Income before the following	83,060	72,389
Gain on sale of investment (Note 6b)	1,059	114
Net income	84,119	72,503
Other comprehensive income	–	–
Comprehensive income	$84,119	$72,503

See Accompanying Notes

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

For the year ended December 31, *(Thousands of dollars)*	2007	2006
Retained earnings, beginning of year (Restated Note 2)	$438,541	$415,067
Net income	84,119	72,503
	522,660	487,570
Dividends	30,000	50,000
Retained earnings, end of year	$492,660	$437,570

See Accompanying Notes

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31, *(Thousands of dollars)*	2007	2006
Assets		
Current assets		
Cash and short-term investments (Note 9)	$12,046	$16,110
Accounts receivable (Note 18a)	105,340	95,518
Inventories	10,662	8,170
Prepaid expenses (Note 18a)	22,302	18,804
	150,350	138,602
Property, plant and equipment (Note 10)	967,096	958,149
Investments	15	768
Goodwill (Note 11)	18,360	18,350
Intangible assets (Note 12)	28,289	28,369
Sinking funds (Note 13)	56,408	50,207
Other assets (Note 14)	75,970	60,414
	$1,296,488	$1,254,859
Liabilities and Province's equity		
Current liabilities		
Accounts payable and accrued liabilities (Note 18a)	$131,606	$132,688
Dividend payable	7,500	12,500
Services billed in advance (Note 18a)	50,073	44,156
Current portion of long-term debt (Note 15)	24,573	17,253
	213,752	206,597
Deferred revenue	12,274	11,606
Long-term debt (Note 15)	327,802	348,934
	553,828	567,137
Non-controlling interest	–	152
Province of Saskatchewan's equity		
Equity advance (Note 16)	250,000	250,000
Retained earnings	492,660	437,570
	742,660	687,570
	$1,296,488	$1,254,859

See Accompanying Notes

On behalf of the Board: Grant Kook Blair Davidson

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, *(Thousands of dollars)*	2007	2006
Operating activities		
Net income	$84,119	$72,503
Adjustments to reconcile net income to cash provided by operating activities		
Depreciation and amortization	169,370	152,626
Pension expense of defined benefit plans	(5,810)	331
Special termination benefits cost (Note 20)	31,884	43,399
Contributions to defined benefit pension plans	(40,321)	(35,442)
Sinking fund earnings	(1,923)	(2,557)
Change in fair value of financial instruments	(136)	–
Other	(1,976)	(2,237)
Net change in non-cash working capital (Note 18b)	(10,315)	(525)
Cash provided by operating activities	224,892	228,098
Investing activities		
Property, plant and equipment expenditures	(172,216)	(228,034)
Proceeds on disposal of assets	–	135
Proceeds on sale of investments (Note 6b)	1,800	574
Investments acquired (Note 6a)	(460)	(311)
Customer accounts	(4,994)	(3,444)
Cash used in investing activities	(175,870)	(231,080)
Financing activities		
Sinking fund installments	(3,266)	(2,916)
Repayment of long-term debt	(13,844)	(32,844)
Capital lease obligations	143	(2,462)
Dividends paid	(35,000)	(38,315)
Financing leases	(1,119)	(1,450)
Cash used in financing activities	(53,086)	(77,987)
Decrease in cash	(4,064)	(80,969)
Cash and cash equivalents, beginning of year	16,110	97,079
Cash and cash equivalents, end of year	$12,046	$16,110
Comprised of:		
Cash	$7,051	$1,116
Short-term investments	4,995	14,994
	$12,046	$16,110

See Accompanying Notes

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – THE CORPORATION

Saskatchewan Telecommunications Holding Corporation (the Corporation) markets and supplies a range of voice, data, internet, wireless, text, image, security and entertainment products, systems and services. The Corporation is a Saskatchewan Provincial Crown corporation operating under the authority of *The Saskatchewan Telecommunications Holding Corporation Act* and, as such, the Corporation and its wholly-owned subsidiaries are not subject to Federal or Provincial income taxes in Canada.

By virtue of *The Crown Corporations Act, 1993,* the Corporation has been designated as a subsidiary of Crown Investments Corporation of Saskatchewan (CIC). Accordingly, the financial results of the Corporation are included in the consolidated financial statements of CIC, a Provincial Crown corporation.

One of the Corporation's subsidiaries, Saskatchewan Telecommunications, is regulated by the Canadian Radio-television and Telecommunications Commission (CRTC) under the *Telecommunications Act* (Canada).

NOTE 2 – CHANGE IN ACCOUNTING POLICIES

Effective January 1, 2007, the Corporation adopted the accounting recommendations for accounting changes (Canadian Institute of Chartered Accountants (CICA) Handbook Section 1506) in accordance with the transitional provisions of the section. The new standard allows for voluntary changes in accounting policies only if they result in the financial statements providing reliable and more relevant information and that new disclosures are required in respect of changes in accounting policies, changes in accounting estimates and correction of errors. The adoption of section 1506 has had no material impact on these consolidated financial statements.

Effective January 1, 2007, the Corporation adopted the accounting recommendations for comprehensive income (CICA Handbook Section 1530), financial instruments-recognition and measurement (CICA Handbook Section 3855), financial instruments-disclosure and presentation (CICA Handbook Section 3861), hedges (CICA Handbook Section 3865) and equity (CICA Handbook Section 3251) in accordance with the transitional provisions of the sections. These sections provide standards for recognition, measurement, disclosure and presentation of financial assets, financial liabilities, non-financial derivatives and embedded derivatives, and describe when and how hedge accounting may be applied. CICA Handbook Section 1530 provides standards for the reporting and presentation of comprehensive income, which represents the change in equity from transactions and other events and circumstances from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income that are excluded from net income calculated in accordance with generally accepted accounting principles in Canada (Canadian GAAP).

Upon adoption of these new standards, the Corporation designated its cash, short-term investments and sinking funds as held-for-trading which are measured at fair value. Unrealized changes in the fair value of these financial instruments are included in net income. Accounts receivable are classified as loans and receivables which are measured at amortized cost. Accounts payable, accrued liabilities and long-term debt are classified as other financial liabilities which are measured at amortized cost using the effective interest method. The result of these designations is an increase in retained earnings and sinking funds of $875,662 at January 1, 2007.

Sinking funds were previously presented as a reduction of long-term debt based on requirements to contribute to sinking funds for specific debt issues. Upon adoption of the new standards, sinking funds are disclosed as non-current assets and long-term debt is reported at the carrying amount of the debt. The impact at January 1, 2007 was to increase assets and long-term debt by $51,082,461.

NOTE 2 – CHANGE IN ACCOUNTING POLICIES, continued

The costs of issuing long-term debt had been deferred and amortized in equal annual amounts. The new recommendations require the use of the effective interest method to recognize the issuing costs whereby the amount recognized varies over the term of the debt and provides a constant return based on the principal outstanding. These amounts have been reclassified as part of the carrying value of the long-term debt.

At January 1, 2007, the Corporation adjusted the unamortized premium and deferred financing costs to reflect implementation of the effective interest method since the issuance of the debt. The impact was an increase in the unamortized premium balance and an increase in retained earnings of $95,636.

Total adjustments to January 1, 2007 balances:

Increase (decrease)	(Thousands of dollars)
Long-term debt premium and issue costs	$96
Sinking funds	51,082
Other assets	(2,444)
Long-term debt	47,763
Retained earnings	971

Derivatives may be embedded in other host instruments. Under the new standards embedded derivatives are treated as separate derivatives when their economic characteristics and risks are not clearly and closely related to those of the host instrument, when the embedded derivative has the same terms as those of a stand-alone derivative, and the combined contract is not held-for-trading or designated at fair value. These embedded derivatives are measured at fair value with subsequent changes recognized in net income. The Corporation selected January 1, 2003 as the transition date for embedded derivatives, as such only contracts or financial instruments entered into or modified after the transition date were examined for embedded derivatives. As at December 31, 2007, and December 31, 2006, the Corporation does not have any outstanding contracts or financial instruments with embedded derivatives.

The Corporation had no "other comprehensive income or loss" transactions during the period and no opening or closing balances for accumulated other comprehensive income or loss.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements have been prepared in accordance with Canadian GAAP.

Subsidiaries and investments

The consolidated financial statements include the accounts of the Corporation and its subsidiaries with all significant inter-company transactions and balances being eliminated. Investments in companies in which the Corporation has significant influence are accounted for by the equity method. Other investments are accounted for by the cost method.

Declines in value below cost, of investments accounted for using the equity or cost method, are recognized as a charge to income when such declines are considered to be other than temporary.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

The following is a summary of the operating entities in which the Corporation has an interest:

Operating entities	Percentage ownership	Basis for inclusion
Saskatchewan Telecommunications	100.0%	Consolidation
Saskatchewan Telecommunications International, Inc.	100.0%	Consolidation
DirectWest Corporation	100.0%	Consolidation
DirectWest Canada, Inc.	100.0%	Consolidation
SecurTek Monitoring Solutions Inc.	100.0%	Consolidation
Hospitality Network Canada Inc.	100.0%	Consolidation
Saskatoon 2 Management Ltd.	70.0%	Proportionate consolidation
Saskatoon 2 Properties Limited Partnership	70.0%	Proportionate consolidation
Manalta Investment Company Ltd.	1.0%	Cost
NSI Global Inc.	0.1%	Cost

The following is a summary of the non-operating entities of the Corporation: 675161 British Columbia Ltd., Abernethy Enterprises, Inc., Avonlea Holding, Inc., Battleford International, Inc., Esterhazy Holding, Inc., Hollywood At Home Inc., Wild River Resources Ltd. (formerly Hygait Resources Ltd.), Lootah SaskTel LLC (United Arab Emirates Corporation), Navigata Communications Ltd., Craik Enterprises, Inc. (formerly Navigata Holding CCIV, Inc.), Nokomis Holding, Inc., Qu'Appelle Holding, Inc., Saskatchewan Telecommunications International (Tanzania) Limited, SaskTel International Consulting, Inc., SaskTel Investments Inc., SecurTek Partnership No. 8, SecurTek Partnership No. 9, Shellbrook Holding, Inc., Vanguard Holding, Inc., Wadena Holding, Inc., Xavier Holding, Inc., Yellowgrass Holding, Inc., and Zenon Park Holding, Inc.

Cash and short-term investments

Cash and short-term investments include investments in money market instruments, which are purchased with maturity dates of less than 90 days. Short-term investments are stated at fair value.

Inventories

Materials, supplies and inventories are recorded at the lower of cost and net realizable value. Cost is determined using an average-cost basis.

Property, plant and equipment

Property, plant and equipment is recorded at cost including materials, services and direct labour.

Depreciation and amortization on property, plant and equipment is computed on the straight-line basis, using rates determined by a continuing program of engineering studies for each class of property in service.

Asset	Estimated useful life
Buildings	25 - 35 years
Plant and equipment	2 - 50 years
Office furniture, equipment and leaseholds	2 - 17 years

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

With respect to property, plant and equipment acquired, constructed or developed over time, the Corporation follows the policy of capitalizing related equipment, construction, development and installation costs, including direct labour, as plant under construction. These costs are then depreciated and amortized on a basis consistent with the Corporation's depreciation and amortization policy from the date the asset is substantially completed and put into productive use.

Impairment of long-lived assets

Long-lived assets, including property, plant and equipment, are amortized over their useful lives. The Corporation reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized on a long-lived asset to be held and used when its carrying value exceeds the total undiscounted cash flows expected from its use and eventual disposal. The amount of loss recorded is determined by deducting the asset's fair value (based on discounted cash flows from its use and disposition) from its carrying value.

Asset retirement obligations

Legal obligations associated with the retirement of property, plant and equipment are initially measured at fair value and are adjusted for any changes resulting from the passage of time and any changes to the timing or amount of the original estimate of undiscounted cash flows. The asset retirement cost is capitalized as part of the related asset and is amortized into earnings over the asset's useful life. There were no significant asset retirement obligations as at December 31, 2007.

Goodwill

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the tangible and intangible assets acquired less liabilities assumed, based on their fair values. Goodwill is allocated as of the date of the business combination to the Corporation's reporting units that are expected to benefit from the synergies of the business combination.

Goodwill is not amortized and is tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit is compared with its fair value. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired and the second step of the impairment test is unnecessary. The second step is carried out when the carrying amount of a reporting unit exceeds its fair value, in which case the implied fair value of the reporting unit's goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any. The implied fair value of goodwill is determined in the same manner as the value of goodwill is determined in a business combination as described in the preceding paragraph, using the fair value of the reporting unit as if it was the purchase price. When the carrying amount of a reporting unit's goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess and is presented as a separate line item in the consolidated statement of operations and comprehensive income.

Intangible assets

Finite-life intangible assets, including customer accounts acquired individually, with a group of other assets or through the Corporation's authorized dealers are recorded at cost.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Finite-life intangible assets acquired in a business combination are recorded at their fair values.

Other finite-life intangible assets, including customer contracts, are recorded at cost of acquisition or development, and may include direct development costs, overhead costs directly attributable to development activity and betterment costs.

Amortization is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Asset	Estimated useful life
Customer accounts	3 - 10 years
Customer contracts	8 years
Non-competition agreement	6 years
Customer list and relationships	10 years
Other	3 - 10 years

The Corporation annually reviews the amortization method and useful lives of finite-life intangible assets.

Finite-life intangible assets are tested for impairment when events or changes in circumstances indicate that their carrying value may not be recoverable. They are written down to fair value when the related undiscounted cash flows are not expected to allow for recovery of the carrying value.

Revenue recognition

Revenues are recognized in the period the services are provided when there is clear proof that an arrangement exists, amounts are determinable and the ability to collect is reasonably assured. Revenues from local telecommunications, data, internet, entertainment and security services are recognized based on access to the Corporation's network and facilities at the rate plans in effect during the period the service is provided. Certain service connection charges and activation fees, along with corresponding direct costs are deferred and recognized over the average expected term of the customer relationship. Revenues from long distance and wireless airtime are recognized based on the usage or rate plans in the period service is provided. Revenues from equipment sales are recognized when the equipment is delivered to and accepted by the customer. Revenues for longer term contracts are recognized based on a percentage of completion. Payments received in advance are recorded as deferred revenue until the product or service is delivered.

Customer solutions may involve the delivery of multiple services and products that occur at different points and over different periods of time. The multiple services are separated into their respective accounting units and consideration is allocated among the accounting units. The relevant revenue recognition policies are applied to each accounting unit.

Revenues are earned through the sale of print and electronic telephone directory advertising, on-line advertising and advertising in agricultural publications. Advertising revenues are generally recognized, in accordance with the contractual terms with advertisers, on a monthly basis over the life of the print directory or electronic directory advertising commencing with the delivery or display date, respectively. Amounts billed in advance for directory advertising are deferred and recognized over the corresponding life of the directory.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Operating revenues for perpetual licenses are recognized on delivery or according to the terms of the license agreement. Revenues related to customized software contracts are recognized upon customer acceptance or when customer acceptance provisions of the contract are satisfied. Where the arrangement includes multiple elements, perpetual license revenues are recognized on delivery, provided the undelivered elements are not essential to the functionality of the license and the Corporation has evidence of fair value for all the undelivered items. If payment is subject to customer acceptance, revenue is not recognized until customer acceptance or expiration of the acceptance period. Fees for professional services, other than in the context of multiple element arrangements are recognized as services are rendered. Support and maintenance fees are recognized over the term of the contract.

Revenues for turn-key telecommunication projects and consulting services are recognized using the percentage of completion method or the achievement of contract milestones. Amounts billed or paid in advance of services provided are recorded as deferred revenue.

The CRTC has established a National Subsidy Fund to subsidize Local Exchange Carriers (LECs), like the Corporation, that provide service to residential customers located in high cost service areas (HCSAs). The CRTC has set the rate per line and band for all LECs. The Corporation recognizes the revenue on an accrual basis by applying the rate to the number of residential network access lines served during the period in HCSAs.

Employee future benefits

The Corporation has: a defined benefit pension plan (a), a defined contribution pension plan (b), and a service recognition defined benefit plan (c).

a) *Defined benefit pension plan*

The Corporation accrues its obligations under the Saskatchewan Telecommunications Pension Plan and the related costs, net of plan assets. The Corporation has adopted the following policies related to the defined benefit plan:

The cost of pension benefits earned by employees is actuarially determined using the projected benefit method prorated on service and management's best estimate of expected plan investment performance, salary escalation and retirement ages of employees.

Pension plan assets are valued at fair value, which is determined using current market values.

Expected return on plan assets is calculated based on a five year weighted average of actuarial gains and losses, expected returns on plan assets, and contributions and benefit payments made in the current year.

Past service costs from plan amendments are amortized on a straight-line basis over the average remaining service period of employees who were active on the day of the amendment but not yet fully eligible to receive benefit (8.3 years). This represents the period that economic benefits from the amendments are expected to be realized.

The excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligation and the market related value of the plan assets is amortized over the average remaining life of retired members of the plan. The average remaining life of retired members was calculated as a weighted average of 22 years.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

When the restructuring of a benefit plan results in a settlement and a curtailment of obligations, the curtailment is accounted for prior to the settlement.

b) *Defined contribution pension plan*

Defined contribution plan costs are recognized as employees render services during the year.

c) *Service recognition defined benefit plan*

The Corporation also provides a service recognition defined benefit program for its employees. The cost of the plan is determined using the projected benefit method prorated on service.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated at the year end exchange rates. Revenues and expenses are translated at rates of exchange prevailing on the transaction dates.

Translation gains and losses on foreign currency denominated monetary items are taken into income in the current year.

Financial instruments

Upon initial recognition, financial instruments are measured at fair value and are classified as held-to-maturity, held-for-trading, available-for-sale, loans and receivables or other liabilities. Held-to-maturity assets are carried at amortized cost with amortized premiums or discounts and other than temporary losses due to impairment included in net income. Held-for-trading assets and liabilities are carried at fair value with any gains or losses included in net income. Available-for-sale assets are carried at fair value with revaluation gains or losses included in other comprehensive income until the asset is removed from the balance sheet. Loans and receivables, and other liabilities are accounted for at amortized cost using the effective interest method. Transaction costs are included in the initial carrying value of the financial instrument except for held-for-trading instruments in which case they are expensed as incurred.

Derivative financial instruments are used by the Corporation in the management of its financial exposures as deemed appropriate, and based on the risk management strategy of the Corporation. The Corporation's policy is not to use derivative financial instruments for trading or speculative purposes.

The Corporation, from time to time, is party to certain derivative financial instruments, principally interest rate swap contracts (used to manage the exposure to market risks from changing interest rates) and forward foreign exchange contracts (used to manage foreign currency exposures).

The Corporation formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific assets and liabilities on the balance sheet or to specific firm commitments or anticipated transactions. The Corporation also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

For fair value hedges, changes in the fair value of the derivatives and corresponding changes in fair value of the hedged items attributed to the risk being hedged will be recognized in net income. For cash flow hedges, the effective portion of the changes in the fair values of the derivative instruments will be recorded in other comprehensive income until the hedged items are recognized in net income.

Use of estimates

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include the carrying amounts of property, plant and equipment and underlying estimations of useful lives of depreciable assets and capitalization of labour and overhead, the carrying amount of goodwill and intangible assets and underlying estimates of future cash flow, the carrying amounts of accounts receivable and underlying provision for bad debts and the carrying amounts of deferred pension costs and underlying actuarial assumptions. The inherent uncertainty involved in making such estimates and assumptions may impact the actual results reported in future periods.

NOTE 4 – ACCOUNTING POLICY DEVELOPMENTS

Capital disclosures

The new recommendations of the CICA for capital disclosures (CICA Handbook Section 1535) will apply to the first interim period of the Corporation's 2008 fiscal year. The new recommendations establish standards for disclosing information about the Corporation's capital (debt and equity) and how it is managed. Specifically, information should be disclosed to enable users of the financial statements to evaluate the Corporation's objectives, policies and processes for managing capital. The Corporation does not expect to be materially affected by the new recommendations.

Financial instruments-disclosures

The new recommendations of the CICA for financial instruments-disclosures (CICA Handbook Section 3862) replace the existing disclosure recommendations of financial instruments-disclosure and presentation (CICA Handbook Section 3861). The new recommendations will apply to the first interim period of the Corporation's 2008 fiscal year and will result in additional disclosures related to financial instruments, and the nature, extent and management of risks arising from financial instruments to which the entity is exposed.

Financial instruments-presentation

The existing recommendations of the CICA for financial instruments presentation included in financial instruments-presentation and disclosure (CICA Handbook Section 3861) are carried forward, unchanged as financial instruments-presentation (CICA Handbook Section 3863).

NOTE 4 – ACCOUNTING POLICY DEVELOPMENTS, continued

Inventories

The new recommendations of the CICA for inventories (CICA Handbook 3031) will become effective for fiscal years beginning on or after January 1, 2008, with early adoption permitted. The new recommendations establish standards for the determination of the cost of inventories and the subsequent recognition as expense, including any write-down to net realizable value and reversals of previous write-downs for increases to net realizable value. The Corporation does not expect to be materially affected by the new recommendations.

International Financial Reporting Standards

The Accounting Standards Board of the CICA has adopted a strategic plan that will result in Canadian GAAP converging with International Financial Reporting Standards (IFRS). It is anticipated that the transition process will be completed by 2011, at which time Canadian GAAP will be fully converged with IFRS for public accountable enterprises. Throughout the transition period, standards subject to joint-convergence projects may be adopted prior to full convergence. Standards not subject to joint convergence projects will be exposed in an omnibus manner for adoption at the time of convergence. Throughout the process there will be assessments of progress toward convergence, the first of which will be a progress review by the Accounting Standards Board, to be released by March 31, 2008. This review will confirm the implementation date for convergence. Due to the evolving nature of IFRS through convergence projects, it is difficult to assess the impact of convergence, if any, on the Corporation.

Rate regulated operations

The CICA has amended certain sections of the CICA Handbook to remove the rate regulation exemption for recognition of certain assets and liabilities arising from rate regulation as well as other recognition and measurement guidance. These changes will be effective for year-ends beginning on or after January 1, 2009. The Corporation is currently assessing the impact of implementation of these recommendations, but does not expect to be materially affected.

NOTE 5 – RATE REGULATION

The Corporation's telecommunications and broadcast services are regulated by the CRTC. However, the CRTC only regulates rates for specific telecommunications services and only in locations where the Commission believes that the level of competition in that service is not high enough that market forces can be relied on to protect the interests of customers. For these 'non-forborne' services, the rate which the Corporation may charge must receive CRTC approval prior to being implemented and may not be set below the long run incremental cost of the service, calculated according to CRTC costing rules.

The CRTC also regulates the rates for all services that are designed for use by competitors. The CRTC requires rates for many of these services to be based on long run incremental costs plus approved mark-ups.

In addition, the CRTC has implemented a price cap framework which: limits the Corporation's flexibility in the pricing of some rate regulated retail services; subjects certain competitor service rates to potential annual decreases; and prohibits the Corporation from altering basic residential access rates in areas deemed to be Low Cost Serving Areas.

NOTE 5 – RATE REGULATION, continued

The CRTC has established a subsidy mechanism aimed at keeping basic residential access affordable in areas deemed by the CRTC to be High Cost Serving Areas (HCSAs). In these areas the Corporation receives a subsidy from the National Contribution Fund equal to the difference between long-run incremental costs in these areas and the rates charged to subscribers. Therefore the revenue received by the Corporation in these areas is effectively the rate charged to subscribers plus the subsidy per line. The cost component of the subsidy calculation amount is adjusted annually based on assumed productivity gains less inflation. The rate component is also adjusted annually as the CRTC has given the Corporation the ability to make annual rate increases equal to the rate of inflation in HCSAs; however, even if the Corporation does not raise rates in these areas, the increase is assumed to have been applied and the subsidy per line is decreased.

Approximately 28% (2006 – 32%) of the Corporation's operating revenues are currently subject to CRTC rate regulation. Rate regulation does not result in the Corporation selecting accounting policies that would differ from generally accepted accounting principles.

NOTE 6 – ACQUISITIONS AND DISPOSALS

a) Acquisitions

Effective January 26, 2007, the Corporation, through its subsidiary DirectWest Canada, Inc., purchased the remaining 15% interest in The Phone Book Company Partnership (the Partnership) owned by MidWest Marketing Inc. for cash consideration of $460,000. The Partnership was subsequently dissolved.

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition:

	(Thousands of dollars)
Total consideration	$460
Total tangible assets	588
Total intangible assets	353
Total liabilities	(491)
Goodwill	10
Assets acquired	$460

b) Disposals

During the year, the Corporation disposed of its interest in Streamlogics Inc. for cash proceeds of $1,800,000, resulting in redemption of preference shares and a gain of $1,059,294 on the disposal of common shares.

NOTE 7 – RESTRUCTURING CHARGES

During 2007, $45,630,369 (2006 – $55,081,593) was recorded to restructuring charges. The charges relate to phases two and three of a three-phase, voluntary early retirement program (ERP) for Saskatchewan Telecommunications.

The ERP has been undertaken to reduce operating costs and manage the employee demographic profile in the context of a changing labour market. During 2007, 163 employees (2006 – 187) elected to receive a package that included a cash allowance and immediate pension benefits.

NOTE 7 – RESTRUCTURING CHARGES, continued

An additional charge of approximately $20.8 million is expected to be incurred in 2008. These costs are not eligible for recognition at December 31, 2007 and will be expensed as incurred.

The table below provides a summary of the costs recognized and the liability recorded at December 31:

	2007	2006 (Thousands of dollars)
Balance in accounts payable and accrued liabilities, beginning of year	$8,102	$8,670
Restructuring charges	45,630	55,082
Less:		
Cash payments	12,088	12,251
Special termination benefits costs (Note 20)	31,884	43,399
Balance in accounts payable and accrued liabilities, end of year	$9,760	$8,102

NOTE 8 – INTEREST AND RELATED ITEMS

	2007	2006 (Thousands of dollars)
Interest expense	$28,058	$30,623
Less:		
Sinking fund earnings	1,923	2,557
Interest on short-term investments	968	2,729
Change in fair value of financial instruments	136	–
	$25,031	$25,337

NOTE 9 – CASH AND SHORT-TERM INVESTMENTS

The balance consists of funds invested with the Province of Saskatchewan at an average interest rate of 4.20% (2006 – 4.29%).

NOTE 10 – PROPERTY, PLANT AND EQUIPMENT

	Cost	Accumulated depreciation and amortization	Net book value	
			2007	2006 (Thousands of dollars)
Buildings	$268,019	$147,519	$120,500	$121,297
Plant and equipment	2,312,324	1,696,556	615,768	565,380
Office furniture, equipment and leaseholds	174,010	83,937	90,073	72,634
Plant under construction	116,008	–	116,008	173,162
Materials and supplies	14,682	–	14,682	16,034
Land	10,065	–	10,065	9,642
	$2,895,108	$1,928,012	$967,096	$958,149

Depreciation and amortization for the year totalled $163,181,077 (2006 – $146,847,361).

NOTE 11 – GOODWILL

The changes in the carrying amount of goodwill are as follows:

	2007	2006 (Thousands of dollars)
Goodwill, beginning of year	$18,350	$18,953
Acquired	10	–
Disposed	–	(594)
Reclassified to intangible assets	–	(9)
Goodwill, end of year	$18,360	$18,350

NOTE 12 – INTANGIBLE ASSETS

	Cost	Accumulated amortization	Net book value	
			2007	2006 (Thousands of dollars)
Customer accounts	$52,520	$26,141	$26,379	$26,402
Customer contracts	1,037	291	746	879
Non-competition agreement	661	412	249	302
Customer list and relationships	1,027	232	795	676
Other	164	44	120	110
	$55,409	$27,120	$28,289	$28,369

Amortization during the year totalled $5,399,740 (2006 – $4,992,806).

NOTE 13 – SINKING FUNDS

Sinking funds are established under conditions attached to a portion of the long-term debt. The fund is administered by the Province of Saskatchewan and includes the Corporation's required contributions, its proportional share of earnings and its proportional share of revaluation gains or losses.

The Corporation has recorded an increase in the fair value of financial instruments of $136,306 for the year ended December 31, 2007, which has been included with interest and related items.

The changes in the carrying amount of sinking funds are as follows:

	2007	2006 (Thousands of dollars)
Sinking funds, beginning of year	$50,207	$44,734
Valuation adjustment, January 1	876	–
Installments	3,266	2,916
Earnings	1,923	2,557
Valuation adjustment, during the year	136	–
Sinking funds, end of year	$56,408	$50,207

NOTE 14 – OTHER ASSETS

	2007	2006 (Thousands of dollars)
Deferred pension costs (Note 20)	$60,761	$46,569
Deferred expenses	11,974	11,157
Financing leases	2,164	1,531
Other	1,071	1,157
	$75,970	$60,414

Amortization for the year totalled $788,999 (2006 – $786,008).

NOTE 15 – LONG-TERM DEBT

	Years to Maturity	Weighted Average Interest Rate (%)	2007	2006
				(Thousands of dollars)
Province of Saskatchewan				
Canadian dollar issues (a) (c)	1 - 5	6.89	$111,190	$124,842
Canadian dollar issue (c)	13	10.08	125,716	125,770
Canadian dollar issues (c)	22	5.70	108,058	108,061
			344,964	358,673
Other (b)			7,411	7,514
Total long-term debt			352,375	366,187
Less current portion			24,573	17,253
			$327,802	$348,934

(a) Long-term debt totaling $20,779,000 (2006 – $34,376,000) is subject to redemption at the option of the issuer on 30 days notice, as outlined in the terms and conditions.

(b) This includes amounts related to mortgage on real property. The mortgage bears an annual interest rate of 6.28% and is amortized over 20 years. The principal repayments due in the next five years are as follows:

	(Thousands of dollars)
2008	$260
2009	277
2010	294
2011	313
2012	333

(c) Under conditions attached to a portion of the long-term debt, the Corporation is required to pay annually into sinking funds, administered by the Province of Saskatchewan, one percent of the debt outstanding (see note 13).

Sinking fund installments and anticipated long-term debt repayments (net of sinking funds) due over the next five years are as follows:

	(Thousands of dollars)
2008	$24,313
2009	3,419
2010	82,753
2011	2,366
2012	2,366

NOTE 16 – EQUITY ADVANCE

As a Saskatchewan Provincial Crown corporation, the Corporation's equity financing is in the form of equity advances of $250,000,000 (2006 – $250,000,000) from CIC.

NOTE 17 – COMMITMENTS AND CONTINGENCIES

Commitments

The future minimum payments under operating leases and contractual obligations for services in each of the next five years are as follows:

	(Thousands of dollars)
2008	$41,600
2009	33,898
2010	29,612
2011	12,655
2012	12,538

The above payments include $27,889,100 for leases with related parties.

Contingencies

On August 9, 2004, a proceeding under the *Class Actions Act* (Saskatchewan) was brought against several Canadian wireless and cellular service providers, including Saskatchewan Telecommunications Holding Corporation and Saskatchewan Telecommunications. The proceeding involves allegations by wireless customers of breach of contract, misrepresentation, negligence, collusion, unjust enrichment and breach of statutory obligations concerning system administration fees. The Plaintiffs seek unquantified damages from the defendant wireless communications service providers. Similar proceedings have been filed by, or on behalf of, Plaintiffs' counsel in other provincial jurisdictions. On July 18, 2006, the Saskatchewan court declined to certify the action as a class action, but granted the Plaintiffs leave to renew their application in order to further address certain statutory requirements respecting class actions. The Plaintiffs renewed their application for certification and the renewed application was heard in June of 2007. On September 17, 2007, the Saskatchewan court certified the Plaintiff's proceeding as a class action with respect to an allegation of unjust enrichment only. The Corporation, together with all other defendants in the proceedings, have filed motions with the Saskatchewan Court of Appeal seeking leave to appeal the decision of the court certifying the action as a class action. The Corporation believes that it has strong defenses to the allegations and that legal errors were made by the court in the certification proceeding. The Corporation's leave to appeal application is presently before the Court of Appeal. No specific date has yet been set for the hearing of that application.

On March 20, 2007, R.L.T.V. Investments Inc. brought a lawsuit against Saskatchewan Telecommunications Holding Corporation, Saskatchewan Telecommunications and several current and former officers and employees of Saskatchewan Telecommunications. The lawsuit includes allegations that the Corporation wrongfully obtained its Multipoint Communication Systems (MCS) licence in Saskatchewan and is legally responsible for the failure of Image Wireless Communications Inc. as a consequence of alleged breach of contract, intentional interference with trade or business, deceit, misrepresentation and breach of the Competition Act. The Plaintiff claims damages in excess of $87 million. The Corporation believes that it has strong defenses to the allegations and a motion to strike all claims against the defendants was heard on September 25, 2007. The court struck the lawsuit in its entirety and the Plaintiff has appealed the decision to the Saskatchewan Court of Appeal.

NOTE 17 – COMMITMENTS AND CONTINGENCIES, continued

Should the ultimate resolution of these actions differ from management's assessments and assumptions, a material adjustment to the Corporation's financial position or results of operations could result.

In the normal course of operations, the Corporation becomes involved in various claims and litigation. While the final outcome with respect to claims and litigation pending at December 31, 2007 cannot be predicted with certainty, it is the opinion of management that their resolution will not have a material adverse effect on the Corporation's consolidated financial position or results of operations.

The Corporation has provided letters of credit related to both performance and bid bonds to various parties. The total amount at December 31, 2007 is $208,343.

Deferral account

The previous price cap framework, which expired in May of 2007, included a mechanism known as the "deferral account." This mechanism was used to mitigate potential adverse effects on competition in the local market which the CRTC felt might be caused by mandated reductions in the price of local residential service. Rather than lowering rates, as the price cap formula would otherwise have required, the CRTC directed the Corporation to keep a record of the amount of revenue which would otherwise have been lost. Various adjustments to this amount were allowed or required as a result of specific CRTC policy directives.

A new price cap framework, which no longer contains a deferral account mechanism, became effective May 2007. However, there is an outstanding deferral account balance generated during the previous price cap period, which, in Saskatchewan must be used to fund initiatives such as service improvements for the disabled. The Corporation estimates this accumulated commitment to be $1.5 million as of December 31, 2007.

On January 17, 2008, the CRTC released its decision in the proceeding determining the specific uses of the deferral account. The CRTC approved SaskTel's proposals, which will see the Corporation spending the estimated balance of $1.5 million in the deferral account over the next four years on a combination of capital and expense items designed to improve service for the disabled.

NOTE 18 – ADDITIONAL FINANCIAL INFORMATION

a) Balance sheet

	2007	2006
		(Thousands of dollars)
Accounts receivable		
Customer accounts receivable	$84,152	$77,016
Accrued receivables – customer	5,166	5,251
Allowance for doubtful accounts	(4,941)	(5,162)
	84,377	77,105
High cost serving area subsidy	5,651	5,894
Other	15,312	12,519
	$105,340	$95,518
Prepaid expenses		
Prepaid expenses	$15,989	$13,581
Deferred service connection charges	6,313	5,223
	$22,302	$18,804
Accounts payable and accrued liabilities		
Trade accounts payable and accrued liabilities	$68,192	$65,939
Payroll and other employee-related liabilities	52,421	55,725
Taxes payable	5,730	4,648
Interest payable	4,809	5,248
Other	454	1,128
	$131,606	$132,688
Services billed in advance		
Advance billings	$38,126	$34,898
Deferred customer activation and connection fees	8,612	6,595
Customer deposits	3,335	2,663
	$50,073	$44,156

b) Supplementary cash flow information

	2007	2006
		(Thousands of dollars)
Net change in non-cash working capital		
Accounts receivable	$(9,341)	$6,551
Inventories	(2,492)	(1,353)
Prepaid expenses	(4,081)	(4,956)
Accounts payable and accrued liabilities	(942)	(4,995)
Services billed in advance	5,916	2,203
Deferred revenues	625	2,025
	$(10,315)	$(525)
Interest paid	$28,058	$30,425

NOTE 19 – FINANCIAL INSTRUMENTS

The Corporation's financial instruments include cash and short-term investments, accounts receivable, sinking funds, accounts payable, accrued liabilities, short-term obligations and long-term debt, which by their nature are subject to risks.

Price risk – currency risk

The Corporation is exposed to currency risk primarily through transactions with foreign suppliers and short-term foreign commitments. The Corporation uses a combination of derivative financial instruments to manage these exposures when deemed appropriate. The Corporation does not actively trade derivative financial instruments. At December 31, 2007, there were no derivative financial instruments outstanding.

Price risk – interest rate risk

The Corporation is exposed to interest rate risk arising from fluctuations in interest rates on short-term investments, sinking funds, short-term obligations and long-term debt. Interest rate risk on short and long-term liabilities are managed based on the refinancing needs of the Corporation.

The average effective interest rate on the Corporation's long-term debt was 7.67% while the average interest rate on long-term debt was 7.68%.

Price risk – market risk

The Corporation is exposed to market risk on short-term investments and sinking funds. Fair value adjustments will fluctuate based on changes in market prices. The majority of the market risk results from the sinking funds which are managed, based on market conditions, to coincide with the related debt maturities.

Credit risk

The Corporation is exposed to credit risk through its short-term investments and accounts receivable. Credit risk related to short-term investments is minimized by dealing with institutions that have strong credit ratings. Credit risk related to customer accounts receivable is minimized because of the large and diverse customer base covering many consumer and business sectors. The Corporation evaluates customer credit risk and limits credit availability when necessary. Provisions for credit losses are maintained and regularly reviewed by the Corporation.

Fair value

Fair values approximate amounts at which financial instruments could be exchanged between willing parties based on current markets for instruments with similar characteristics such as risk, principal and remaining maturities. Fair values are estimates using present value and other valuation techniques which are significantly affected by the assumptions used concerning the amount and timing of estimated future cash flows and discount rates that reflect varying degrees of risk. Therefore, due to the use of judgment and future-orientated information, aggregate fair value amounts should not be interpreted as being realizable in an immediate settlement of the instruments.

The carrying value of cash and temporary investments, accounts receivable, accounts payable, accrued liabilities and short-term obligations approximates their fair values due to the short-term maturity of these financial instruments.

NOTE 19 – FINANCIAL INSTRUMENTS, continued

Sinking funds are recorded at fair value based on quoted market prices for the securities held by the fund.

The fair values of the Corporation's long-term debt are estimated based on quoted market prices for the issues or for similar issues.

	2007		2006	
(Thousands of dollars)	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt, Province of Saskatchewan	$344,964	$436,908	$358,673	$460,242
Other long-term debt	$6,694	$7,475	$6,972	$7,724

NOTE 20 – EMPLOYEE FUTURE BENEFITS

The Corporation has: a defined benefit pension plan (a), a defined contribution pension plan (b), and a service recognition defined benefit plan (c).

a) Defined benefit pension plan

The defined benefit pension plan is governed by Saskatchewan Telecommunications (SaskTel) which has been closed to new membership since 1977. The SaskTel defined benefit pension plan is registered under *The Pension and Benefit Act, 1992,* Saskatchewan, the *Income Tax Act,* Canada and regulated by the Saskatchewan Financial Services Commission – Pension Division. The Corporation is responsible for adequately funding the defined benefit pension plan. Contributions are determined by actuarial valuations. The contributions reflect actuarial assumptions about future investment returns, salary projections and future service benefits. A valuation is performed at least every three years to determine the actuarial present value of the accrued pension benefit. The latest valuation is dated July 25, 2007 was performed as of December 31, 2006.

The SaskTel defined benefit pension plan provides a full pension at age 65, at age 60 with at least 20 years of service or upon completion of 35 years of service. The pension is calculated to be 2% times the average of the highest three years of pensionable earnings times the number of years of service up to a maximum of 35 years of service. A reduced pension may be opted for if certain age and years of service criteria are met.

For employees that retire before the age of 65, but meet other age plus service requirements, either a reduced or unreduced pension may be payable. Pensions are subject to annual indexing with the Consumer Price Index (CPI) up to a maximum of 2% per year.

The introduction of the ERP for the Corporation resulted in a curtailment to the defined benefit pension plan and recognition of special termination benefits costs. The impact of the curtailment was to reduce the accrued benefit obligation by $24,987,614 (2006 – $26,596,139). Special terminations benefits costs totaled $31,884,084 (2006 – $43,399,326).

NOTE 20 – EMPLOYEE FUTURE BENEFITS, continued

Key assumptions used as inputs to the actuarial calculations are:

	2007	2006
Discount rate	5.50%	5.15%
Expected return on plan assets	6.75%	6.75%
Inflation rate	2.50%	2.50%
Expected salary increase	3.00%	3.00%
Post-retirement index (not to exceed 2%)	100% of CPI	100% of CPI

The table below shows the allocation of pension plan assets:

Asset category	2007	2006
Equity securities	52.9%	55.5%
Bonds	27.9%	29.0%
Short-term investments (treasury bills, notes and commercial paper)	11.4%	8.3%
Real estate	7.8%	7.2%
	100%	100%

The table below shows the components of the defined pension plan cost:

	2007	2006 (Thousands of dollars)
Current service cost – defined benefit plan	$(4,436)	$(7,480)
Interest cost	(52,328)	(52,241)
Expected return on pension plan assets	59,897	59,455
Special termination benefits costs	(31,884)	(43,399)
Amortization of net transitional asset	11,651	11,651
Amortization of past service costs	(3,808)	(4,220)
Amortization of actuarial loss	(5,166)	(6,307)
Impact of settlement	-	(2,133)
Net pension cost	$(26,074)	$(44,674)

NOTE 20 – EMPLOYEE FUTURE BENEFITS, continued

The accrued benefit obligation, plan assets and deferred pension cost tables below show the change in the defined benefit pension plan and the change in the fair value of the plan's assets during the year and the status of the plan as at December 31.

Accrued benefit obligation	2007	2006 (Thousands of dollars)
Accrued benefit obligation, beginning of year	$1,049,368	$1,029,502
Current service cost	5,622	9,124
Curtailment gain	(24,988)	(26,596)
Interest cost	52,329	52,548
Benefits paid	(58,529)	(64,656)
Impact due to change in discount rate	(40,242)	6,047
Special termination benefits costs	31,884	43,399
Accrued benefit obligation, end of year	$1,015,444	$1,049,368

Plan assets	2007	2006 (Thousands of dollars)
Fair value of plan assets, beginning of year	$1,007,653	$917,733
Actual return on plan assets	54,080	114,954
Employer contributions	40,265	37,977
Employee contributions	1,186	1,645
Benefits paid	(58,529)	(64,656)
Fair value of plan assets, end of year	$1,044,655	$1,007,653

Deferred pension costs	2007	2006 (Thousands of dollars)
Funded status surplus (deficit)	$29,211	$(41,715)
Unamortized transitional asset	(15,496)	(27,147)
Unamortized past service costs	4,595	8,404
Unamortized net actuarial losses	42,451	107,027
Deferred pension costs (included with other assets)	$60,761	$46,569

b) Defined contribution pension plan

The defined contribution pension plan requires the Corporation to contribute 6% of employees' pensionable earnings and employees to contribute a minimum of 4% of pensionable earnings. The total cost for the defined contribution plan is equal to the Corporation's required contribution. The Corporation's 2007 pension cost and employer contributions for the Public Employees Pension Plan are $15,279,569 (2006 – $12,651,201).

NOTE 20 – EMPLOYEE FUTURE BENEFITS, continued

c) *Service recognition defined benefit plan*

The service recognition defined benefit plan provided a retiring allowance of two days salary per year of service which is payable on retirement. Based on the Collective Agreement between the Corporation and the Communications, Electrical and Paperworkers Union of Canada, ratified April 22, 2005, the service recognition defined benefit program was curtailed effective March 19, 2005. Employees will no longer earn two days pay per year of service, however will continue to earn incremental pay increases for the earned service at March 19, 2005 until retirement. Key assumptions used as inputs to the actuarial calculations are:

	2007	2006
Discount rate	5.00%	4.60%
Expected salary increase	3.00%	3.00%
Estimated average remaining employee service life	14.1 years	14.1 years

Accrued benefit obligation	2007	2006 (Thousands of dollars)
Accrued benefit liability, beginning of year	$19,432	$21,019
Defined benefit service cost	1,282	1,360
Benefit payments	(2,884)	(2,947)
Accrued benefit liability, end of year	$17,830	$19,432

NOTE 21 – RELATED PARTY TRANSACTIONS

Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to Crown Investments Corporation of Saskatchewan by virtue of common control by the Government of Saskatchewan, non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan and investee corporations accounted for under the equity method (collectively referred to as "related parties").

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. These transactions and amounts outstanding at year end are as follows:

	2007	2006 (Thousands of dollars)
Operating revenues	$70,364	$63,286
Operating expenses	39,129	37,322
Other income	89	13
Accounts receivable	6,453	4,954
Property, plant and equipment	1,373	3,468
Accounts payable and accrued liabilities	1,587	1,859

NOTE 21 – RELATED PARTY TRANSACTIONS, continued

In addition, the Corporation pays Saskatchewan Provincial Sales Tax to the Saskatchewan Department of Finance on all its taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

Other amounts and transactions due to (from) related parties and the terms of settlement are described separately in these financial statements and notes thereto.

NOTE 22 – COMPARATIVE FIGURES

Certain of the 2006 figures have been reclassified to conform to the current year's presentation.

BOARD OF DIRECTORS

REG BIRD, Chair

PAM SKOTNITSKY, Vice Chair

BLAIR DAVIDSON

DALE BLOOM, Secretary to the Board of Directors

NANCY EDGE

TOM HOPE

GEORGINA JOLIBOIS

BILL LAWSON

CHELAINE PELLETIER

DOUGLAS B. RICHARDSON, Q.C.

GLENYS SYLVESTRE

BENJAMIN VOSS

WILLIAM J. (BILL) WARDELL, Q.C.

BOARD COMMITTEES

AUDIT COMMITTEE
Blair Davidson – Chair
Pam Skotnitsky
Tom Hope
Ben Voss
Nancy Edge
Glenys Sylvestre

CORPORATE GROWTH AND TECHNOLOGY
Ben Voss – Chair
Blair Davidson
Bill Lawson
Tom Hope
Georgina Jolibois

ENVIRONMENT AND HUMAN RESOURCES
Bill Wardell – Chair
Chelaine Pelletier
Bill Lawson
Pam Skotnitsky
Glenys Sylvestre

GOVERNANCE COMMITTEE
Doug Richardson – Chair
Nancy Edge
Georgina Jolibois
Bill Wardell
Chelaine Pelletier

EXECUTIVE OFFICERS

ROBERT WATSON – President and Chief Executive Officer

- Before coming to SaskTel in November, 2004, held several senior executive positions in the Canadian Telecom industry, including Vice President of Business Development at GT Group Telecom/360 Networks; Executive Vice President – Carrier Services, Engineering, Operations, Customer Services and Chief Quality Officer at Group Telecom; President of Shaw FiberLink Ltd.; President of Shaw Mobilecomm; and President of WIC Connexus.
- Has held numerous director and affiliation appointments within the telecommunications industry, as well as in the education and community sectors.
- A recipient of the Saskatchewan Centennial Medal, he currently sits on the Board of Directors for the Conference Board of Canada, the Canadian Prostate Cancer Network (CPCN) and the Information Technology Association of Canada (ITAC).
- Graduate in Electrical Technologies from Ryerson University.
- Has attended the International Executive Development Program at the INSEAD Centre in Fountainbleau, France, as well as the Executive Management Program at Ashridge College in the United Kingdom. Holds an ICD.D designation from the institute of Corporate Directors.

MIKE ANDERSON – Chief Financial Officer

- 28 years with SaskTel in a variety of positions in Marketing, Operations, Customer Services, Digital Interactive Video and Corporate Development.
- Previously served on the boards of DirectWest Publishing Partnership and Navigata Communications Partnership.
- Currently sits on the boards of Saskatoon Square, SaskFilm, SaskTel International, SaskTel Pension Board and DirectWest.
- B.Admin, University of Regina, Certified Management Accountant (CMA); member of the Society of Management Accountants.

DOUG BURNETT – Vice-President, Human Resources, Corporate Affairs & Corporate Services, Acting President, SaskTel International

- 18 years with SaskTel, initially as Corporate Counsel and subsequently promoted to his current role.
- Serves as executive Sponsor for Saskatoon Square Investment, as well as on the boards of Wicihitowin Foundation, SecurTek Monitoring Solutions Inc., DirectWest Publishing Partnership, Hospitality Network Canada Inc. and INROADS, Inc.
- Member of the Conference Board of Canada's Human Resource Executives Council (West) and the National Industrial Relations Executive Council.
- Prior to SaskTel, practiced law in Regina.
- B.A, University of Regina; LL.B., University of Saskatchewan; and a Certified Human Resources Professional (CHRP) designation.
- Member of both the Canadian Bar Association and the Law Society of Saskatchewan.

KEN KEESEY – Vice-President, Customer Services, Sales

- 27 years with SaskTel in a variety of positions within Customer Services and Sales.
- Serves on the boards of Saskatchewan Crime Stoppers, Saskatoon City Hospital Foundation, iTracks Advisory Board and the Saskatoon Centennial Advisory Committee.
- Governor for Junior Achievement of Northern Saskatchewan.

JOHN MELDRUM – Vice-President, Corporate Counsel and Regulatory Affairs & Chief Privacy Officer, Acting Vice-President, Business Development

- 31 years with SaskTel, first as a solicitor, and later as General Counsel and Corporate Secretary.
- Serves on the boards of DirectWest Corporation, Saskatoon Properties Limited Partnership, Hospitality Network Canada Inc., and SecurTek Monitoring Solutions Inc.
- Member of The Canadian Bar Association and The Law Society of Saskatchewan.
- LL.B., University of Saskatchewan.
- Received Q.C. (Queen's Counsel) designation in 2000.

DIANA MILENKOVIC – Senior Vice-President, Marketing and Service Development

- 16 years with SaskTel in VP roles of Corporate Affairs, Mobility, Customer Services, Sales & Operation, and Marketing & Service Development.
- Serves on community board of the Regina Symphony Orchestra.
- Most recently, her past directorships include Chair of the Board of Saskatchewan Communications Network (SCN) and on the Board of the 2005 Jeux Canada Summer Games.
- Prior to SaskTel, worked as Policy Advisor Executive Council and Leader of the Opposition Office, Government of Saskatchewan; Marketing for Western Canada Summer Games; 12 years with Boards of Education in Regina, Saskatoon, Swift Current.
- B.Music, BA, University of Saskatchewan; Executive Business Programs in Leadership, Finance and Process Mastery.

JIM PITT – President, SaskTel Expansion Division

- Before joining SaskTel, held executive positions at GT Group Telecom from 1999 to 2005, where he was responsible for multiple divisions including International Development and the National Partner Programs, and at Shaw Communications from 1995 to 1999, where he was VP/GM for Shaw Communications Paging and Mobilecomm Divisions. Previous to Shaw, held various executive positions dating back to 1985, when he was involved with the launch of Cantel's cellular service in Canada.
- Attended McGill University.
- Attended the McGill Management Institute focusing on finance, transportation and distribution management.

STACEY SANDISON – Vice-President, Customer Services, Operations

- 24 years with SaskTel including as General Manager of Marketing for Consumer Services and Mobility, and positions in Marketing, Sales, Mobility, Customer Services and Operations.
- Previously served on the SaskTel Superannuation Board.
- Previously served on boards of SecurTek and The Canadian Wireless Telecom Association.
- B.Admin, University of Regina, MBA, Ellis College, New York.

KYM WITTAL – Chief Technology Officer

- 25 years with SaskTel including positions as General Manager – Technology Performance & Operations; Manager of Application Development (Engineering & Operations) which was later expanded to Manager of IT (Business Solutions); Customer Services and Human Resources.
- Serves as Chairman of the TRLabs Board of Directors.
- BScEE, P.Eng., University of Saskatchewan; member of Association of Professional Engineers and GeoScientists of Saskatchewan (APEGS).

CORPORATE DIRECTORY

SASKTEL
SUBSIDIARIES EXECUTIVE OFFICERS

Gord Farmer	President, DirectWest
Barry Rogers	President, SecurTek
Doug Jesse	President, Hospitality Network; Chief Executive Officer, SecurTek

SASKTEL
SENIOR OPERATING MANAGERS

(As of December 31, 2007)

Dale Baron	Senior Director – Finance (Controller)
Phil Bohay	Senior Director – Business Sales (Rural Revitalization)
Gail Lefebvre	Senior Director – EASI
Tom Laird	Senior Director – DIV
Darcee MacFarlane	Senior Director – Corporate Communications
Al Rogers	Senior Director – ITM (Enterprise Solutions)
Curt Smith	Senior Director – Corporate Marketing Strategy
Pat Tulloch	Senior Director – Marketing Operations (Market Expansion and Incubation)
Al Yam	Senior Director – TD&E
Barry Ziegler	Senior Director – Business Development

SASKTEL INTERNATIONAL
SENIOR OPERATING MANAGERS

Doug Burnett	Acting President, SaskTel International
Scott Fedec	Vice President, Finance
Steve Sousa	Vice President, Software Solutions & Network Operations
Derrick Duczek	Assistant Vice President, Marketing & Sales
Wayne Kosior	Assistant Vice President, Marketing & Sales
Don Mortenson	Assistant Vice President, Business Development

CORPORATE GOVERNANCE STATEMENT

AUTHORITY

SaskTel is a Crown corporation governed by *The Saskatchewan Telecommunications Holding Corporation Act*, and subject to the provisions of *The Crown Investments Corporation Act, 1993*. The Crown Investments Corporation of Saskatchewan (CIC), as the holding company for Saskatchewan's commercial Crown corporations, has authority to establish direction for SaskTel related to certain matters set out in legislation.

Through the Chair, who is an independent director, the Board of Directors is accountable to the Minister Responsible for SaskTel. The Minister Responsible is a key communications link among the Corporation, CIC, Cabinet, the Legislature and the public.

BOARD APPOINTMENTS

The Lieutenant Governor in Council appoints members of the Board, and designates the Chair and Vice Chair. Subject to applicable legislation, directors are appointed for a fixed term and their appointments can be renewed at expiry. There are twelve (12) members on the Board.

KEY ACCOUNTABILITIES

The Board of Directors is responsible for supervising the management and affairs of the Corporation. While focusing on the strategic leadership of the Corporation, the Board delegates day-to-day operations to management and holds them accountable for the Corporation's performance.

The Board discharges its responsibilities directly, by delegation to management and through Committees of the Board. There are four Committees of the Board: the Audit Committee; the Corporate Growth and Technology Committee; the Environment & Human Resources Committee; and the Governance Committee.

CORPORATE GOVERNANCE PRACTICES

The SaskTel Board has implemented a comprehensive set of governance practices and is committed to clear disclosure of its governance practices in accordance with current best practice disclosure standards.

On June 30, 2005, the Canadian Securities Administrators (CSA) National Policy 58-201 on Corporate Governance Guidelines and National Instrument 58-101 on Governance Disclosure Rules came into effect. The CSA standards supercede the Toronto Stock Exchange Corporate Governance Guidelines, which the Board used previously to assess its practices. The Governance Committee has reviewed the Guidelines with a view of adapting the Board's governance practices to the guidelines, where effective and beneficial. Although SaskTel is not required to comply with the CSA governance guidelines, the Corporation has used them to benchmark its corporate governance practices in the following section.

NOTE

Following a change in government in November 2007, the composition of the SaskTel Board of Directors was changed.

CSA CORPORATE GOVERNANCE POLICY, NP 58-201, AND DISCLOSURE INSTRUMENT, NI 58-101F1 (SUMMARY)	COMMENTS AND DISCUSSION	DOES SASKTEL ALIGN?
Composition of the Board **NP 58-201, section 3.1** 3.1 The board should have a majority of independent directors.	The majority of directors on the SaskTel Board (9 out of 12) are independent.	Yes
NI 58-101F1, sections 1(a) and (d) 1(a) Disclose the identity of directors who are independent; (b) Disclose the identity of directors who are not independent and the basis for that determination; (c) Disclose whether the majority of directors are independent; and (d) Disclose whether a director is a director of any other issuer that is a reporting issuer.	**Reg Bird**, Chair: *Independent* - External industry expert **Pam Skotnitsky**, Vice Chair: *Independent* - Associate Vice President, Government & Public Affairs, Credit Union Central of Saskatchewan **Blair Davidson**: *Independent* - Chartered Accountant & Partner, Hergott Duval Stack & Partners LLP **Nancy Edge**: *Not Independent* - Regulatory Analyst, SaskTel, and CEP Representative **Tom Hope**: *Independent* - Partner & Executive Vice President, Toll Cross Investments Inc. **Georgina Jolibois**: *Independent* - Mayor of La Loche; Instructor, Dumont Technical Institute **Bill Lawson**: *Not Independent* - Engineering Assistant, Trunking & Switching Technician, SaskTel, and CEP Representative **Chelaine Pelletier**: *Independent* - Education Program Coordinator, Whitecap Dakota First Nation **Douglas Richardson, Q.C.**: *Independent* - Lawyer, Partner and Past Chair, McKercher, McKercher & Whitmore LLP **Glenys Sylvestre**: *Independent* - Instructor II, Accounting and Auditing, University of Regina **Benjamin Voss**: *Not Independent* - Chief Executive Officer, Saskatchewan Entrepreneurial Foundation **William Wardell, Q.C.**: *Independent* Lawyer and Partner, Wardell, Gillis, Tangjerd, Rodgers & Cotton The determination of independence is made by the Governance Committee and is based on an assessment of the requirements in Multilateral Instrument 52-110, Audit Committees. Nancy Edge and Bill Lawson, as employees of SaskTel, are not independent. SaskCentral is the incorporating agent for the Entrepreneurial Foundation. The Foundation receives an operating grant from SaskTel's holding company, Crown Investments Corporation of Saskatchewan (CIC). CIC has one class "A" interest in the Foundation and CIC has appointed one director to the Foundation's board. Ben Voss, as an officer of the Foundation, an affiliated entity, is not independent. Section 1(d) does not apply to SaskTel as SaskTel does not have share capital, and is not an issuer.	Yes
NP 58-201, section 3.2 3.2 The chair of the board should be an independent director who is the effective leader of the board and who ensures that the board's agenda will enable it to successfully carry out its duties.	The Chair of the Board is an independent director who provides leadership in board organization, processes, effectiveness and renewal, serves as liaison between the Board and the shareholder and ensures Board agendas reflect an effective balance between the role of the Board and that of management.	Yes

CSA CORPORATE GOVERNANCE POLICY, NP 58-201, AND DISCLOSURE INSTRUMENT, NI 58-101F1 (SUMMARY)	COMMENTS AND DISCUSSION	DOES SASKTEL ALIGN?
NI 58-101F1, sections 1(f) 1(f) Disclose whether the chair of the board is an independent director; disclose the identity of the chair and describe the role of the chair	Reg Bird is the Chair of the Board and he is an independent director. The Chair reports to the Board and ultimately to the shareholder and is responsible for presiding over meetings of the Board and ensuring that the Board discharges its fiduciary and legal responsibilities. The Chair's primary duties include: • chairing meetings of the Board and ensuring meetings are properly convened and business is conducted legally • working with the CEO and the Corporate Secretary to set Board meeting schedules and establish agendas • monitoring meeting attendance and encouraging full participation by directors at meetings • communicating with directors between meetings • taking a lead role in assessing and addressing any concerns related to Board, committee or director performance • assisting directors to achieve full utilization of individual abilities • promoting an open and constructive working relationship between senior management and the Board • working with committee chairs to maintain effective communications and division of responsibilities • providing advice and counsel to the CEO and senior management • representing the shareholder's interests and perspective to management, and representing management's views to the shareholder • in conjunction with the CEO, developing productive relationships and representing the Corporation with the shareholder and key stakeholders	Yes
Meetings of Independent Directors **NP 58-201, section 3.3** 3.3 The independent directors should hold regularly scheduled meetings at which non-independent directors and members of management are not present.	As a Standing Agenda item, the Board holds an in camera session without management present at each regular meeting of the Board. All directors participate in the sessions, except where a director has a conflict with an item under discussion. The non-independent directors are not officers of the Corporation. The Board has reviewed this guideline and believes that participation by the non-independent directors does not give officers of the Corporation the opportunity to bias or influence Board decisions.	Substantial compliance
NI 58-101F1, sections 1(e) 1(e) Disclose whether the independent directors hold regularly scheduled meetings at which members of management are not present; disclose the number of such meetings held in the previous 12 months; if such meetings are not held, disclose what the board does to facilitate open and candid discussion among independent directors.	There were four (4) regular Board meetings held in 2007, and during each regular meeting in camera sessions without management present but including all directors were held. Board practices that facilitate open and candid discussion among and independent judgment by directors include: • holding in camera sessions of no fixed duration where directors are encouraged to raise any issues of concern • having an independent director as Chair of the Board • clearly delineating the division of responsibilities between Board and management • providing for the Board/directors to access external advice The Board is satisfied that its governance practices foster full and open discussion and debate and that it retains the independence of mind to make decisions in the best interests of the Corporation and the shareholder.	Yes

CSA CORPORATE GOVERNANCE POLICY, NP 58-201, AND DISCLOSURE INSTRUMENT, NI 58-101F1 (SUMMARY)	COMMENTS AND DISCUSSION	DOES SASKTEL ALIGN?

NI 58-101F1, sections 1(g)

1(g) Disclose the attendance record of each director for board meetings held in the most recently completed financial year.

The Board held nine (9) meetings in 2007. The number of Board meetings attended by each director in 2007 is set out below.

Director	Meetings Attended*
Reg Bird, Chair	8(9)**
Pam Skotnitsky, Vice-Chair	9(9)
Blair Davidson	9(9)
Nancy Edge	8(9)
Tom Hope	8(9)
Georgina Jolibois	9(9)
Bill Lawson	9(9)
Chelaine Pelletier	5(6)
Douglas Richardson	9(9)
Glenys Sylvestre	4(6)
Benjamin Voss	8(9)
William Wardell	9(9)
Alison Renny	2(3)***

* For the purposes of this report, members who attended meetings in part were considered to be present.
** Figures in brackets represent the maximum number of meetings for the period in which the individual was a board member.
*** Served as a member of the Board of Directors until March 2007.

Does SaskTel align? Yes

Board Mandate

NP 58-201, section 3.4

3.4 The board should adopt a written mandate which explicitly acknowledges responsibility for the stewardship of the corporation and responsibility for:

(a) to the extent possible, satisfying itself as to the integrity of the CEO and executive and that they have created a culture of integrity throughout the organization;
(b) adopting a strategic planning process and approving at least annually a strategic plan which takes into account, among other things, the opportunities and risks of the business;
(c) identification of the principal risks of the corporation's business and ensuring the implementation of appropriate systems to manage these risks;
(d) succession planning, including appointing, training and monitoring senior management;
(e) adopting a communications policy for the Corporation;
(f) the integrity of the corporation's internal control and management information systems; and
(g) developing the Corporation's approach to corporate governance, including a set of principles and guidelines specific to the Corporation.

The written mandate should also address measures for receiving feedback from stakeholders (for example, a process for stakeholders to contact independent directors); and the expectations and responsibilities of directors, including basic duties to attend meetings and review materials in advance.

The Board has written Terms of Reference that contain the majority of the elements required by the Policy. The Terms of Reference outline the Board's principal duties and responsibilities, including responsibility to function as stewards of the Corporation and to:

- provide leadership in setting the Corporation's long-range strategic direction and annually approve the Corporation's overall strategic plan
- participate in identifying the principal risks of the business in which the Corporation is engaged and oversee the implementation of appropriate systems to manage the risks
- appoint the CEO, evaluate the performance of senior management and ensure effective succession planning processes
- adopt policies and processes to enable effective communication with the shareholder, stakeholders and the public
- monitor the integrity of the Corporation's internal control and management information systems

The Board has approved Terms of Reference for Directors where the expectations and responsibilities of individual directors are delineated.

SaskTel regularly surveys internal and external stakeholders to obtain feedback about Corporate activities. The Chair of the Board participates in a forum established by CIC, which is comprised of the chairs of all subsidiary Crown boards and senior CIC officials, where issues of mutual interest and concern are shared.

Elements of the Policy not specifically identified in the Terms of Reference for the Board include (a) and (g). Respecting (a), the Board has established practices which promote a culture of ethical business conduct (see discussion under section 3.8 of NP 58-201). With respect to (g) the Board has delegated responsibility to the Governance Committee to oversee the Corporation's approach to corporate governance.

Does SaskTel align? Substantial compliance

CSA CORPORATE GOVERNANCE POLICY, NP 58-201, AND DISCLOSURE INSTRUMENT, NI 58-101F1 (SUMMARY)	COMMENTS AND DISCUSSION	DOES SASKTEL ALIGN?
NI 58-101F1, section 2 2. Disclose the text of the board's written mandate.	The Board's principal responsibilities are described on the previous page. The text of the Board's Terms of Reference can be obtained by contacting the Corporate Secretary to the Board.	Yes
Position Descriptions **NP 58-201, section 3.5** 3.5 The board should: develop clear position descriptions for the chair of the board and the chair of each board committee; together with the CEO, develop a position description for the CEO delineating management's responsibilities; develop or approve corporate goals and objectives that the CEO is responsible to meet.	The Board has approved Terms of Reference for the Board, the Chair of the Board, the Chair of each Committee, each Committee and individual directors and has adopted a Position Description for the CEO. The CEO's Position Description sets out the CEO's primary accountabilities and responsibilities. The Board Terms of Reference address management duties, and a Final Authorization Policy, applicable to monetary and non-monetary matters, sets out those matters that require Board approval and delegates other matters to management. The Environment & Human Resources Committee annually recommends performance indicators for the Corporation and personal goals for the CEO that are approved by the Board. The Board annually approves a business plan that includes Corporate objectives, priorities and performance indicators. The CEO is responsible to see that the Corporation achieves the business plan and to meet any other targets assigned by the Board	Yes
NI 58-101F1, sections 3(a) and (b) 3(a) Disclose whether the board has developed written position descriptions for the chair of the board and the chair of each board committee and, if not, describe how the board delineates the role and responsibilities of each such position. (b) Disclose whether the board and CEO have developed a written position description for the CEO.	The Board has developed written position descriptions for the Chair of the Board, the Chair of each Committee and the CEO.	Yes
Orientation & Continuing Education **NP 58-201, sections 3.6 and 3.7** 3.6 The board should ensure new directors receive comprehensive orientation and fully understand the role of the board and committees, the contribution individual directors are expected to make and the nature and operation of the business. 3.7 The board should provide continuing education opportunities for all directors to enhance their skills and abilities and ensure their knowledge of the Corporation's business is current.	Management provides new directors with a comprehensive orientation to the business and the industry. CIC delivers a training program that focuses on the skills that directors need to do their jobs, effective board processes and best practices in corporate governance. Other development opportunities made available to directors are described on the next page.	Yes

CSA CORPORATE GOVERNANCE POLICY, NP 58-201, AND DISCLOSURE INSTRUMENT, NI 58-101F1 (SUMMARY)	COMMENTS AND DISCUSSION	DOES SASKTEL ALIGN?
NI 58-101F1, sections 4(a) and (b) 4(a) Describe the measures taken to orient new directors to the role of the board, committees and directors and to the nature of the Corporation's business (b) Describe the measures taken to provide continuing education opportunities for all directors.	The Corporation provides all members appointed to the Board with a comprehensive *Directors' Reference Manual*, and new directors receive an orientation session delivered by management. The orientation session addresses key industry trends, critical business risks and challenges, the strategic plan, organizational structure and responsibilities of senior staff. New directors are able to meet informally with senior managers to learn about the business, and tours of Corporate operations are arranged periodically. Prior to each regular board meeting, outside experts in various aspects of the telecommunications industry are invited to speak to the Board and senior management. Management has also delivered educational sessions to directors to explain technical aspects of the business. Each year, CIC sponsors a comprehensive education program for directors of CIC subsidiary Crown boards. The program has focused on the key roles and responsibilities of boards, committees and directors, the skills directors need to effectively discharge their responsibilities and best practices and new developments in corporate governance. Directors can participate in external development opportunities related to their duties as directors where authorized by the Corporation or the Board.	Yes
Code of Business Conduct and Ethics **NP 58-201, section 3.8** 3.8 The board should adopt a written code of business conduct and ethics applicable to directors, officers and employees of the corporation designed to promote integrity and deter wrongdoing. The code should address: (a) conflicts of interest, including transactions and agreements where a director or officer has a material interest; (b) protection and proper use of corporate assets and opportunities; (c) confidentiality of corporate information; (d) fair dealing with the Corporation's security holders, customers, suppliers, competitors and employees; (e) compliance with laws, rules and regulations; and (f) reporting of illegal or unethical behaviour.	Board members must comply with the *Directors' Code of Conduct*, which was developed by CIC and applies to the directors of all its subsidiary Crown boards. Officers and employees of the Corporation and its subsidiaries must comply with SaskTel's Business Code of Conduct, which includes a whistle blowing policy. Both Codes are designed to promote integrity and deter wrongdoing, address the elements of the Policy as they apply to a Crown corporation and provide a mechanism to report illegal or unethical behaviour.	Yes

CSA CORPORATE GOVERNANCE POLICY, NP 58-201, AND DISCLOSURE INSTRUMENT, NI 58-101F1 (SUMMARY)	COMMENTS AND DISCUSSION	DOES SASKTEL ALIGN?
NI 58-101F1, sections 5(a) 5(a) Disclose whether the board has adopted a written code of ethical business conduct for the directors, officers and employees of the corporation; how to obtain a copy of the Code; how the board monitors compliance with the Code; and reference any material change report in the most recent financial year relating to any conduct of a director or officer that constitutes a departure from the Code.	A copy of the *Directors' Code of Conduct* can be obtained by contacting CIC. A copy of the Business Code of Conduct can be obtained by contacting SaskTel. Committees of the Board monitor compliance with the *Directors' Code* and the Business Code. The Governance Committee monitors compliance with Corporate donation and sponsorship policies and is responsible to administer, monitor and enforce the *Directors' Code*. The Chair of the Committee reports to the Board at each regular meeting any such issues addressed by the Committee, and submits an annual report to the Board regarding compliance with the *Directors' Code*. The Audit Committee monitors the financial performance of the Corporation and assists the Board to meet its responsibilities respecting accounting and financial reporting, risk management, internal controls and accountability. The Committee interacts directly with the internal and external auditors, who report to the Committee concerning, among other things, any instances of illegal or improper treatment of Corporate assets. The Audit Committee receives quarterly risk management reports, including reports related to legal risks. The Chair of the Committee reports to the Board at each regular meeting any such issues addressed by the Committee, and all directors receive summaries of risk management reports. The Environment & Human Resources Committee monitors compliance with environmental, health and safety and human resource programs, including compliance with the Business Code. The Committee receives reports from management that address, among other things, compliance with related policies, legislation and regulations. The Chair of the Committee reports any issues raised at the Committee level to the Board at each regular meeting of the Board. SaskTel does not have share capital and is not an issuer. Therefore, no material change reports have been filed.	Yes
NP 58-201, section 3.9 3.9 The board should monitor compliance with the code and any waivers granted for the benefit of directors and executive officers should be granted by the board or a board committee. Any waivers for a material departure from the code for any directors or officers should disclose full details of the material change.	The Board has delegated to its Committees the responsibility to monitor compliance with the Codes of Conduct. The Committees report any issues dealt with pursuant to the Codes to the full Board. No waivers from either Code have been granted to any director or officer in 2007.	Yes

CSA CORPORATE GOVERNANCE POLICY, NP 58-201, AND DISCLOSURE INSTRUMENT, NI 58-101F1 (SUMMARY)	COMMENTS AND DISCUSSION	DOES SASKTEL ALIGN?
NI 58-101F1, sections 5(b) 5(b) Describe steps the board takes to ensure directors exercise independent judgment in considering transactions and agreements where a director or officer has a material interest.	Where a director has, or may be perceived to have, a personal interest in a transaction being considered by the Corporation, the director is responsible to declare any such interest at the meeting where the matter is considered and not to participate in discussions about or vote on the matter. In 2005, the Board adopted a Disclosure form to enable directors to declare their directorships on and material interests in business other than SaskTel, their knowledge of the business their associates have or may transact with SaskTel and any material contracts they may have entered into with SaskTel or its subsidiaries. The required information excludes the acquisition of services available to the general public. The completed form is provided to the Governance Committee, the Corporate Secretary and their advisors to assist them in proactively addressing potential conflict of interests. In 2007, the Governance Committee requested and received from all directors, disclosure information respecting which Board members and their immediate families currently hold shares in telecom companies. Management monitors agenda items to identify any issues where a director may have a material interest and such items are not distributed to the director.	Yes
NI 58-101F1, sections 5(c) 5(c) Describe other steps the board takes to encourage and promote a culture of ethical business conduct.	The Board encourages and promotes a culture of ethical business conduct by following current best practices in corporate governance. These practices are reinforced by open and honest discussion about business issues at Board meetings and at informal gatherings between the Board and senior management. The Board expects management to act ethically in its business dealings, in accordance with all applicable legislation, the Business Code of Conduct and any directives or policies of the Board or the shareholder. In 2005, the Business Code of Conduct was revised to incorporate a whistle blowing mechanism to facilitate reporting by employees of issues of concern. Issues arising under the Business Code are reported to and monitored by the Environment & Human Resources Committee and management reports annually to the Governance Committee respecting significant issues that have arisen pursuant to the whistle blowing policy.	Yes
Nomination of Directors **NP 58-201, section 3.10** 3.10 The board should appoint a nominating committee composed of entirely independent directors.	The Governance Committee functions as the nominating committee. Four (4) of five (5) members of the Governance Committee, including the Committee Chair, are independent directors. One (1) Committee member, an employee of SaskTel, is not independent. The employee director serving on the Committee is not an officer of the Corporation. The Committee has reviewed this guideline and believes that having an employee director as a member does not give officers of the Corporation the opportunity to bias or influence Committee decisions.	Substantial compliance

CSA CORPORATE GOVERNANCE POLICY, NP 58-201, AND DISCLOSURE INSTRUMENT, NI 58-101F1 (SUMMARY)	COMMENTS AND DISCUSSION	DOES SASKTEL ALIGN?
NI 58-101F1, sections 6(a) and (b) 6(a) Describe the process by which the board identifies new candidates for board nomination. (b) Disclose whether the board has a nominating committee composed entirely of independent directors and, if not, describe the steps the board takes to encourage an objective nomination process.	The Board, through the Governance Committee, reviews the composition and skill sets of directors annually with a view to maintaining an appropriate mix of expertise, experience and diversity on the Board to support the strategic direction and operating needs of the Corporation. The Governance Committee is responsible for identifying the skill sets needed on the Board, developing and maintaining a Skills Profile that delineates the competencies of current directors and identifies any skill gaps and seeking and recommending to the Board nominees that have the required competencies and fill any identified gaps. In addition to competencies and skills, the appointment practices encourage diversity in the composition of the Board. In seeking candidates, the Committee receives recommendations from the directors, senior management and the shareholder. Potential candidates are interviewed to determine their overall fit with the needs of the Board, any conflicts that would preclude their effective participation and whether they have the time to devote to Board work. The Committee recommends a list of candidates for each vacant position to the Board which in turn recommends a list of recommended candidates to the shareholder for approval. The shareholder has the legislative authority to make board appointments. The Committee believes that following best practices related to Board appointments, maintaining a skills matrix and recruiting candidates who possess the required combination of skills, background and diversity to add value to Corporate decision-making supports an objective nomination process.	Yes
NP 58-201, section 3.11 3.11 The nominating committee should have a written charter establishing the committee's purpose, responsibilities, member qualifications, member appointment and removal, structure and operations (including any authority to delegate to individual directors or subcommittees) and manner of reporting to the board. In addition, the nominating committee should be given authority to engage and compensate outside advisors necessary to permit it to carry out its work. Where a third party has a legal right to nominate directors, the selection and nomination of those directors need not involve the approval of an independent nominating committee.	The Governance Committee has written Terms of Reference setting out its purpose and principal responsibilities, which address the Committee's responsibility to lead the process of recruiting and nominating candidates for appointment to the Board, as well as the other elements of the Policy except member qualifications and the ability to delegate tasks. The Committee has authority to engage outside advisors to assist it in performing its duties, subject to the approval of the Board. The shareholder has the right to nominate candidates for appointment to the Board, and the candidates are assessed by the Governance Committee in the same way as other candidates.	Substantial compliance
NI 58-101F1, sections 6(c) 6(c) If the board has a nominating committee, describe the responsibilities, powers and operation of the committee.	The Governance Committee performs the functions of a nominating committee, and its Terms of Reference describe the responsibilities, powers and operation of the Committee. The Committee is appointed by the Board, serves in an advisory capacity and makes recommendations to the Board within its area of responsibility. A copy of the Committee's Terms of Reference can be obtained by contacting the Corporate Secretary to the Board.	Yes

CSA CORPORATE GOVERNANCE POLICY, NP 58-201, AND DISCLOSURE INSTRUMENT, NI 58-101F1 (SUMMARY)	COMMENTS AND DISCUSSION	DOES SASKTEL ALIGN?
NP 58-201, section 3.12 3.12 The board should adopt a nomination process which considers the competencies and skills of the board as a whole; assesses the competencies and skills possessed by each existing director; and considers the personality and other qualities of each director. The board should also consider the appropriate size of the board, with a view to effective decision-making, and should consider the advice and input of the nominating committee.	The Board's nomination process is described above, and it meets the guidelines of the Instrument. By legislation, the Board is comprised of a maximum of 12 directors. As the Committee responsible for the Board's approach to corporate governance, the Committee makes recommendations to promote timely and effective decision-making.	Yes
NP 58-201, section 3.13 3.13 The nominating committee should be responsible for identifying individuals qualified to become new board members and recommending to the board the new director nominees.	The Governance Committee, serving as the nominating committee, is responsible for leading the process to identify, recruit and recommend qualified candidates for appointment to the Board.	Yes
NP 58-201, section 3.14 3.14 In making its recommendations the nominating committee should consider: the competencies and skills that the board considers necessary for the board as a whole to possess; the competencies and skills of existing directors; the competencies and skills of each nominee; and whether each new nominee can devote sufficient time and resources to board work.	The process followed by the Governance Committee complies with that set out in the Policy and is described above.	Yes
Compensation **NP 58-201, section 3.15** 3.15 The board should appoint a compensation committee composed entirely of independent directors.	The Environment & Human Resources (EHR) Committee performs the functions of a compensation committee. Four (4) of five (5) members of the EHR Committee, including the Committee Chair, are independent directors. One (1) Committee member, as an employee of SaskTel, is not independent. The employee director serving on the Committee is not an officer of the Corporation, does not receive any material related to issues where the director may have a direct conflict and does not participate in Board or Committee discussions on such topics. The Committee has reviewed this guideline and believes that having an employee director as a member does not give officers of the Corporation the opportunity to bias or influence Committee decisions respecting management compensation.	Substantial compliance

CSA CORPORATE GOVERNANCE POLICY, NP 58-201, AND DISCLOSURE INSTRUMENT, NI 58-101F1 (SUMMARY)	COMMENTS AND DISCUSSION	DOES SASKTEL ALIGN?
NI 58-101F1, sections 7(a) and (b) 7(a) Describe the process by which the board determines compensation for the directors and officers of the Corporation. (b) Disclose whether the board has a compensation committee composed entirely of independent directors and, if not, describe the steps the board takes to ensure an objective process for determining such compensation.	The majority of members of the Environment & Human Resources Committee, which serves as the compensation committee, are independent directors. CIC has the legislative authority to fix remuneration levels and set expense guidelines for directors. The Governance Committee has authority to recommend to the Board (and the Board to CIC) adjustments to directors' compensation. The Committee receives quarterly reports respecting the remuneration received by members of the Board, and reports any anomalies to the Board. Each director receives an annual retainer for acting as a board member, directors who are not employees of the Corporation receive fees for attending meetings of the Board and Committees or for performing other functions as a member of the Board. The remuneration levels established by CIC for members of the Board are set out below. **Director Remuneration Schedule** Board Chair retainer $11,000.00 Board member retainer $8,000.00 Board Chair meeting fee $900.00 Committee Chair meeting fee $800.00 Board member meeting fee $700.00 A copy of CIC's remuneration and expense guidelines for directors can be obtained by contacting CIC. CIC has established a framework for executive compensation, and the Board can approve compensation packages within that framework. The Board has delegated responsibility for addressing and making recommendations concerning management compensation issues to the Environment & Human Resources Committee. The Environment & Human Resources Committee reviews and recommends to the Board: changes to the design of the Corporation's overall compensation and benefits plans; management compensation packages that reflect industry standards; performance compensation programs; and annual Corporate indicators, including a sub-set used to determine performance compensation for management. In discharging this function, the Committee has the ability to retain external advisors, subject to approval by the Board.	Yes
NP 58-201, section 3.16 3.16 The compensation committee should have a written charter establishing the committee's purpose, responsibilities, member qualifications, member appointment and removal, structure, operations (including any authority to delegate to individual directors or subcommittees) and manner of reporting to the board. In addition, the compensation committee should be given authority to engage and compensate outside advisors necessary to permit it to carry out its work.	The Board has approved Terms of Reference for the EHR Committee, which address the Committee's responsibilities with respect to compensation, as well as the other elements of the Policy except member qualifications and the ability to delegate tasks. The Committee has authority to engage outside advisors to assist it in performing its duties, subject to the approval of the Board.	Substantial compliance

CSA CORPORATE GOVERNANCE POLICY, NP 58-201, AND DISCLOSURE INSTRUMENT, NI 58-101F1 (SUMMARY)	COMMENTS AND DISCUSSION	DOES SASKTEL ALIGN?
NI 58-101F1, sections 7(c) (c) If the board has a compensation committee, describe the responsibilities, powers and operation of the committee.	The Environment & Human Resources Committee serves as the compensation committee, and its Terms of Reference describe the Committee's responsibilities respecting compensation issues, as well as the powers and operation of the Committee. The Committee is appointed by the Board, serves in an advisory capacity and makes recommendations to the Board within its area of responsibility. A copy of the Committee's Terms of Reference can be obtained by contacting the Corporate Secretary to the Board.	Yes
NP 58-201, section 3.17 3.17 The compensation committee should be responsible for: reviewing and approving corporate goals and objectives relevant to CEO compensation, evaluating the CEO's performance in light of those corporate goals and objectives, and determining the CEO's compensation level based on the evaluation; making recommendations to the board respecting non-CEO officer and director compensation, incentive-compensation plans and equity-based plans; and reviewing executive compensation prior to public disclosure.	The Environment & Human Resources Committee annually recommends to the Board the CEO's performance targets, and leads the annual performance evaluation process for the CEO. The CEO's performance is assessed against the established Corporate objectives and the CEO's individual targets. The results of the CEO's performance are approved by the full Board, and are used in determining compensation. Respecting non-CEO officer compensation, the Committee is responsible for recommending to the Board management compensation packages, performance compensation programs and annual performance targets. The Board reviews and approves the achievement of Corporate targets annually and the extent to which the targets are achieved determines management's eligibility for performance compensation. Executive compensation decisions are subject to any guidelines established by CIC. As a Crown corporation, SaskTel does not have equity-based plans. Director compensation is determined by CIC. Executive compensation information is available to the public through publication of Crown payee reports. The Committee does not review executive compensation reports prior to public disclosure.	Substantial compliance
NI 58-101F1, sections 7(d) (d) If a compensation consultant has been retained, at any time during the Corporation's most recently completed fiscal year, to assist in determining compensation for any of the Corporation's directors and officers, disclose the identity of the consultant and briefly summarize their mandate. If retained to perform any other work, state that fact and briefly describe the nature of the work.	In 2007, the Corporation did retain a compensation consultant (Dillon and Associates) to assist in the development of a short-term incentive plan for senior management.	Yes
Other Board Committees **NI 58-101F1, section 8** 8 If the board has standing committees of the board, other than audit, compensation and nominating committees, identify the committees and describe their function.	In addition to the Audit, Governance and Environment & Human Resources Committees, the Board has appointed a Corporate Growth & Technology (CGT) Committee. The CGT Committee: works with management to develop a growth strategy and related policies; reviews and recommends investments and divestitures; monitors and reports to the Board respecting the performance of investments; and reviews and makes recommendations concerning the evolution of technology in the Corporation, long-term technology strategies and technology investments. A copy of the Committee's Terms of Reference can be obtained by contacting the Corporate Secretary to the Board.	Yes

CSA CORPORATE GOVERNANCE POLICY, NP 58-201, AND DISCLOSURE INSTRUMENT, NI 58-101F1 (SUMMARY)	COMMENTS AND DISCUSSION	DOES SASKTEL ALIGN?
Board Assessments **NP 58-201, section 3.18** 3.18 The board, its committees and each individual director should be regularly assessed. An assessment should consider: with respect to the board or committees, its mandate or charter; with respect to an individual director, the applicable position description(s), as well as the competencies and skills each individual director brings to the board.	Board, Board Chair, Committee evaluations and director peer assessments are performed annually on a two year cycle, with comprehensive board and board chair evaluations being conducted one year, and director peer and committee evaluations being conducted the following year. The evaluations take into consideration the elements of the Policy. Due to a change in the composition of the SaskTel Board of Directors, the scheduled Board and Board Chair evaluations for 2007 were not completed.	Substantial compliance
NI 58-101F1, section 9 9 Disclose whether the board, its committees and individual directors are regularly assessed with respect to their effectiveness and contribution and, if yes, describe the process used.	The Governance Committee oversees the implementation of the above evaluation processes, and uses an external consultant in the case of director peer assessments. The evaluations are survey-based, using an instrument developed by CIC in consultation with the Governance Committees of the subsidiary Crown boards of directors. Board, Chair, Committee and director performance is measured against the duties and expectations set out in their respective Terms of Reference and the specific standards outlined in the evaluation instruments. The purpose of the evaluations is to identify areas where the Board, Committee, Chair or director is managing well and to highlight areas that may benefit by additional focus and attention. Directors complete surveys to provide feedback in writing on the effectiveness and contribution of the Board, Committees, Chairs and individual directors. The Board Chair or a third party follows up the written responses with interviews of directors to elicit additional concerns or suggestions for improvement. The Governance Committee prepares reports outlining the evaluation results, which are submitted to the Board for review and approval. The Committee recommends follow-up action required as a result of recommendations made in the evaluation reports, and tracks implementation of any action items. CIC has hired a consultant to conduct a review of the current evaluation instruments and processes and will implement any changes in 2008.	Yes

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